

Semester at Sea  
University of Virginia

**Commerce 4741**  
**International Financial Management**

Summer 2012

**PROFESSOR:** Mark A. White mwhite@semesteratsea.net

**MEETING TIME:** TBA

**COURSE OBJECTIVES:** This course is intended to provide an introduction to the mechanics of foreign exchange and the forces that drive the international financial marketplace. It extends fundamental financial concepts developed in earlier courses to the international arena and focuses attention on problems peculiar to the financial management of large multinational corporations. Emphasis will be placed on practical applications and *problem solving*.

**TEXT:** Eun, Cheol and Bruce Resnick, *International Financial Management*, 6th Ed., Burr Ridge, IL: Irwin/McGraw-Hill, 2012.

Case packet

**GRADING POLICIES:** Grades will be assigned on a ‘plus/minus’ basis. The relative importance of assignments is as follows:

Class Contribution:	40 percent
Problem Sets:	20 percent
Field Report:	20 percent
Final Exam:	20 percent
	=====
	100 percent

**Contribution to Classroom Learning**

The nature of a case class is such that regular attendance is an absolute minimum requirement for the effective acquisition of knowledge. Class contribution, however, involves much more than just showing up. Your performance in class will be graded along several dimensions: cognitive skills (insight, knowledge, creativity and logic); expressive elements (clarity, fluency and

conciseness); affective ingredients (enthusiasm and interest) as well as your contribution to the process of learning itself (constructive criticism and relevance). Quality contributions *change the direction of class discussion* to benefit the group, rather than for selfish reasons. Quality contributions can be measured by the frequency with which others cite your ideas and/or respond directly to you.

Sometimes individuals find it difficult to contribute to classroom discussion. Remember, one can *always* initiate discussion by asking, “What did others think of this issue? I was confused, but this is what I thought ...” At some point in the term, you may be asked to (anonymously) evaluate your classmate’s contribution to *your* learning.

*Context matters.* Cases are not just long “story problems;” they are real situations faced by real managers. If you are unfamiliar with an industry, take time before class to investigate its structure and key factors for success. *At a minimum*, you are expected to know and/or have looked up the meaning of ALL terms used in a case, e.g., “machine tool,” “semiconductor,” “nonferrous metal,” and “green shoe provision.”

Each case day, your performance relative to the items listed above will be evaluated on a simple scale from 1 to 3, with three being the highest score. At the end of the class, only your best **eight** scores will be used in computing your final grade. No credit will be awarded for absences; whether “excused” or “unexcused.” *You must be present to win.* ☺

### **Study Groups**

I suggest you organize into study groups of 3-4 persons each immediately. This should allow you to more effectively prepare the case assignments and offers the opportunity for you to discuss your thoughts and opinions with others prior to class. Come prepared to contribute to the group’s analysis and discussion. Remember that each case day, there is an opportunity to be graded. I suspect you will spend 1-2 hours preparing for each class, including time spent in individual reading, group discussions and case preparation. More time will be required for the earlier cases, but your group will become more efficient over the semester.

### **Outside Material**

Learning through experience is the focus of this course. Using case material developed by other students (e.g., fraternity/sorority files, solutions posted on the Internet) robs you of this experience and is therefore wrong. Recall the words of Johann von Goethe: “Everything has been thought of before, but the problem is to think of it again.”

### **Problem Sets**

Problem sets are objective in nature and generally involve answering questions or solving problems based on a given set of facts.

## Field Lab Report

Twenty percent of your grade is based on your experiences in the field. Additional information on the field component of the course will be forthcoming, but the “deliverable” for this portion of the course is a brief paper (three pages, 12 point font, 1” margins, 1.5 spaced lines) essentially answering the question, “What did you learn?”

As of this writing, the Field Lab for this class is still being determined, though we’re anticipating it will take place the first day we’re in Rome (2 July 2012). Assuming this to be true, your field lab report is due by **5:00 PM on 8 July 2012**, the day after we leave Italy. If I were you, I’d think about completing this assignment WHILE I was in Italy – at least jotting down some notes and thoughts. Time has a way of disappearing on Semester at Sea, and this assignment is worth 20% of your final grade. Late papers will lose an entire letter grade for every 24 hour period past the submission deadline – don’t leave the easy points on the table! Again, more information will be forthcoming.

## Attendance

Because class contribution is forty percent of your grade, any absences **will be** reflected in your class contribution grade. Other penalties for absences will conform to Semester at Sea policies.

## Guidelines for Strategic Analysis

There is no single “correct” way to analyze a case. In the course of your education, you will encounter a number of different frameworks and structures for analysis which you may or may not find useful. A primary reason for the existence of alternative frameworks is that no single structure is appropriate for all situations. Nonetheless, the following guidelines may prove helpful. They are taken from Bruner, *Case Studies in Finance*, (Homewood, IL: Irwin, 1990).

**Put yourself in the position of the decisionmaker.** Identify the protagonist(s) and determine what they have at stake, what pressures they’re under, and what they have to gain or lose if they succeed or fail. In what business is the company? What is the nature of its product(s), its distinctive competence, its competitors, industry structure, etc? What are the goals of the firm? How are its strategies related to these goals? How well has the firm performed in pursuit of these goals?

**Define the problem.** A common trap is to assume that the issue at hand is the real problem, rather than a symptom of a much larger issue. Avoid too narrow a focus.

**Analyze the situation.** Some cases, reflecting reality, invite you to explore blind alleys. Even these explorations will help you learn, and as you progress, you will develop an instinct for where to devote your time. Economy of effort is desirable.

**Take a stand.** This means having a point of view about the problem, a recommendation, and an analysis to back up both of them.

**Contribute in class.** Actively discuss the issues and your recommendation, but be open to the insights and analysis presented by others. Learning by the case method is not a spectator sport.

## **Tentative Schedule**

- C1. Introduction** Tuesday, 19 June 2012  
Eun & Resnick, Chapter 1, “Globalization and the Multinational Firm”
- C2. International System** Wednesday, 20 June 2012  
Eun & Resnick Chapter 4, “Corporate Governance Around the World”
- C3. CASE Moolani Foundation** Thursday, 21 June 2012
1. Are the environmental conditions in Kenya, India and South Africa conducive to starting the foundation? Which of the countries would provide the best long-term opportunities for the Moolani Foundation?
  2. Prepare cash budgets from September 1, 2007, to August 31, 2008, for the internships in South Africa, India and Kenya.
  3. To what extent should Moolani be concerned about exchange rate fluctuations? If the value of the Canadian dollar were to decrease relative to the foreign currencies, how would cash flow be affected?
  4. In the second year, if four students in total were to take the internship, how would the financial requirements change, assuming administrative costs remained constant?
  5. As Moolani, would you proceed with the venture? If so, how much cash would you request of TD? In which months? How would you convince TD to provide funding?
- C4. International Monetary System / Balance of Payments** Friday, 22 June 2012  
Eun & Resnick, Chapter 2, “International Monetary System”  
Eun & Resnick, Chapter 3, “Balance of Payments”
- C5. Exchange Rates – Basics of Foreign Exchange** Saturday, 23 June 2012  
Eun & Resnick, Chapter 5, “The Market for Foreign Exchange”
- C6. Exchange Rates – Parity Conditions** Sunday, 24 June 2012  
Eun & Resnick, Chapter 6, “International Parity Relationships”
- C7. CASE Vanguard Security Corporation** Monday, 25 June 2012
1. What are the issues facing the corporate treasurer at VSC? What are the exposures or risks faced by VSC?
  2. What is the financial condition of VSC? Can they deliver the product?
  3. What are the terms and risks of the contract?
  4. How do the four methods of forecasting the U.S. dollar exchange rate suggest the dollar will behave relative to the euro during the contract period? Which is the best method of forecasting to use in this situation, and why?
  5. Given the forecast of the U.S. dollar relative to the euro, which hedging product is optimal for VSC?

**C8. CASE Baker Adhesives**

Tuesday, 26 June 2012

1. How profitable is the original sale to Novo once the exchange-rate changes are acknowledged? How might the exchange-rate risk, which affected the value of the order, have been managed?
2. Assuming Baker agrees to the new Novo sale, determine the present value of the expected future cash inflow assuming: (1) there is no hedge, (2) the company hedges using a forward contract, and (3) the company hedges using the money market. Finding a present value is necessary for the following reason: With no hedge or a with forward- contract hedge, the cash flow will occur at the time of payment by Novo. With the money-market hedge, Baker receives a cash flow immediately.
3. Are the money markets and forward markets in parity?
4. How profitable will the follow-on order be? Would you make this new sale?

**SPAIN****C9. Trade Finance**

Sunday, 1 July 2012

Eun &amp; Resnick, Chapter 20, “International Trade Finance”

**ITALY****C10. CASE Belco Global Foods**

Monday, 9 July 2012

1. What different financing arrangements and payment terms support international trade and how do they work?
2. What kinds of considerations determine the terms on which Belco trades with its customers?
3. Which terms should Belco offer to the two new customers mentioned in the case?
4. How should Pam Arnold attempt to collect the overdue payment from Kooritsa Kiev?

**CROATIA****C11. International Financing**

Saturday, 14 July 2012

Eun &amp; Resnick, Chapter 17, “International Capital Structure and Cost of Capital”

**C12. CASE Carrefour SA ... Darden**

Sunday, 15 July 2012

1. What does interest-rate parity say about international borrowing costs?
2. Assuming the bonds are issued at par, what is the cost in euros of each of the bond alternatives?
3. Which debt issue would you recommend?

## GREECE

### C13. International Investment Analysis

Friday, 20 July 2012

Eun & Resnick, Chapter 16, “Foreign Direct Investment and Cross-Border Acquisitions”  
[skim]

Eun & Resnick, Chapter 18, “International Capital Budgeting”

## TURKEY

### C14. CASE Groupe Ariel AS: Parity Conditions and Valuation

Friday, 27 July 2012

1. Compute the net present value of Ariel-Mexico’s recycling equipment in pesos by discounting incremental peso cash flows at a peso discount rate. How should this NPV be translated into Euros? Assume expected future inflation for France is 3% per year.
2. Compute the NPV in Euros by translating the project’s future peso cash flows into Euros at expected future spot exchange rates. Note that Ariel’s Euro hurdle rate for a project of this type was 8%. Again, assume that annual inflation rates are expected to be 7% in Mexico and 3% in France.
3. Compare the two sets of calculations and the corresponding NPVs. How and why do they differ? Which approach should Arnaud Martin use?
4. Suppose Mexican inflation is projected at 3% instead of 7% per year (assume French inflation remains at 3%). How does this affect the NPV calculations?
5. Suppose Ariel expects a significant real depreciation of the peso against the Euro. How should Martin incorporate such an expectation into his NPV analysis? [For simplicity you may continue with the assumption that inflation is expected to be 3% in both countries.] What is its effect on the concluded NPV under each of the approaches in questions 1 and 2?
6. Should Groupe Ariel approve the equipment purchase?

### C15. Hedging 1

Saturday, 28 July 2012

Eun & Resnick, Chapter 7, “Futures and Options on Foreign Exchange”

### C16. Hedging 2

Sunday, 29 July 2012

Eun & Resnick, Chapter 8, “Management of Transaction Exposure” [skim]

Eun & Resnick, Chapter 9, “Management of Economic Exposure” [skim]

Eun & Resnick, Chapter 10, “Management of Translation Exposure” [skim]

**C17. CASE Piconix**

Monday, 30 July 2012

1. Why is Cain concerned by the current exchange rate fluctuation? Is her position long or short?
2. If Cain decides to use options, would she use calls or puts?
3. Calculate the impact of the two hedging strategies and the unhedged position under the following three scenarios at the end of January:
  - a) US\$ = CAD\$
  - b) US\$ = \$0.90 CAD
  - c) US\$ = \$1.10 CAD *For simplification, ignore the difference in time values over the 3-month period.*
4. Should Cain hedge her position in U.S. dollars? Why or why not? If you think she should hedge, which vehicle would she use? Note: if you decide to use options, specify the strike price.

**C18. CASE Voyages Soleil**

Tuesday, 31 July 2012

1. Given the information in the case, how does the future of the Canadian travel industry look over the next six months? Over the next year?
2. Do you expect the value of the Canadian dollar to increase/decrease/not change over the next six months? Over the next year?
3. Are your answers to questions 1 and 2 related?
4. As an advisor to Dupuis, what would you suggest that he do regarding the foreign exchange risk associated with this contract?

**MOROCCO****C19. Swap Transactions**

Sunday, 5 August 2012

Eun &amp; Resnick, Chapter 14, "Interest Rate and Currency Swaps"

**PORTUGAL****C20. Microfinance**

Saturday, 11 August 2012

TBA

**C21. CASE Opportunity International**

Sunday, 12 August 2012

1. How would you assess the performance of Opportunity International's operations in Ghana? Are they a financial success? Are they social success? How do you know?
2. Is Opportunity International as a whole successful? Be thorough in your analysis.
3. What are the benefits and challenges of conversion to a for profit entity?
4. If Opportunity International moves to a for-profit model, how could you be certain that the organization would remain mission-focused?
5. As a for-profit company, would "mission-impact" performance and financial performance be compatible? Would they be sustainable? Would this still be considered a "social enterprise"?
6. What else should OI do to improve success?

**C22. CASE Conflict on a Trading Floor**

Monday, 13 August 2012

*As part of your preparation for today's class, please also read the note, "Ethics: A Basic Framework," included in your course packet.*

1. Using the note on ethics, define the main responsibilities of the junior salesperson at FirstAmerica.
2. How would Carr advise the junior salesperson at FirstAmerica?
3. What's your appraisal of Carr's argument?
4. As the junior salesperson at FirstAmerica, what would you do?

**C22. Wrap-Up**

Tuesday, 14 August 2012

TBA

**FINAL EXAM**

Thursday, 16 August 2012