

## **International Finance - Fall 2008**

University of Houston MBA Program – FINA 7360  
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This course aims to equip future executives with the concepts and tools necessary to relate international finance to business strategy within a globalizing economy. The focus of the course will be on the practical. Course material will be presented in such a way as to prepare students to manage other finance professionals and to equip them to formulate recommendations to decision makers. Students focusing on general management will also benefit from an understanding of the financial aspects of operating overseas.

To achieve these objectives, the course will employ case studies. These cases will usually be analyzed from the perspective of a senior financial executive; applications of financial perspective to strategy, investment decisions and risk management will be emphasized. The course will also emphasize the energy and petrochemical industries in the case studies taught.

The context for the course material is the world of multinational business. The course will demonstrate the special opportunities available to multinational companies through their ability to operate inside multiple countries and across international boundaries. International business, however, also involves risks not faced by firms in their home jurisdictions. This course will pay particular attention to three of those risks: (1) currency/convertibility; (2) volatile emerging market economies with uneven playing fields; and (3) political risk. The course aims to equip students to appreciate the special opportunities of the international economy and to weigh them in light of these specific risks.

The course will be taught in three modules:

Module 1: International Economics, Exchange Risk and Hedging

Module 2: International Investment Decisions and Risk Management

Module 3: Centralized vs. Project Financing options for Multinational Companies

Classes will be taught as a mixture of lecture and case study discussion. Each student will be part of a team presenting at least one case study to the class. Students will also be expected to read all cases and comment actively on their colleagues' presentations. Lecture material relevant to cases will be presented one week in advance. Teams will then present their case analyses at the beginning of the next class.

Presentations should be no more than 8 PowerPoint slides, not including table of contents. Teams should minimize inclusion of background material, as the whole class will have been required to read the case. Teams should follow the methodology outlined by the instructor during the first class, and will be graded in part on how well they do so.

The instructor will then present an assessment of each teams' case presentation. He will also conclude the case portion of the class by discussing other issues and teaching points of note. The second portion of each class will then cover material pertinent to the following week's case study.

Each module will culminate with a Capstone case involving Kemica, a petrochemical company located in Australia. This company faced the full gamut of international financial and investment challenges between its formation in 1999 and its sale to a Chinese chemical firm in 2005. These cases will challenge students to put the specific lessons from previous cases to work within a complex and at times desperate context.

The assigned texts are ***Multinational Business Finance***, David K. Eiteman, Arthur I. Stonehill & Michael H. Moffett, 11th edition; Pearson/Addison-Wesley Publishing Company, and ***Cases in International Finance***, second edition, Gunter Dufey and Ian H. Giddy; Addison- Wesley Publishing Company. Additional case material will be provided by the Professor.

Grading in the course will be based 25% on the case presentations, 25% on the midterm exam and 40% on the final exam and 10% for class participation.

Questions or messages may be sent to me via e-mail at [svarbogast@comcast.net](mailto:svarbogast@comcast.net) and [svarbogast@uh.edu](mailto:svarbogast@uh.edu). In time critical situations, the home e-mail address is probably a better bet. Alternatively, I can be reached at 713 898-2636. I will also be available in my office, Bauer 220D at 4:30pm on Tuesdays and Thursdays.

The course topics, readings and case studies are outlined below. The first case, Kemica (A) will be posted on WebCT before the beginning of classes. Read the case as background to the first class (no work required). As noted, we will do three other Kemica cases later and read two others. Kemica (A) will also provide an introduction to several issues to be addressed during the course. You should also read the section in ***Multinational Business Finance*** covering the International Monetary System (pp.35-47, 50-52)

Good luck and enjoy the course!

## Course Assignments

### MODULE 1 – International Economics, Exchange Risk and Hedging

Date	Topic	Case Study Presentation	Readings
<b>Class I</b> August 28	<p><b><u>The International Financial Environment</u></b></p> <ul style="list-style-type: none"> <li>• Introduction to International Finance</li> <li>• International Monetary System &amp; Different Exchange Rate Systems</li> <li>• Introduction to Finland Case Studies</li> <li>• Case Kemica (A)</li> </ul>		<p style="text-align: right;"><u>Read:</u></p> <p>Multinat. Bus. Fin., pp., 35-47, 50-52 Case: Kemica (A)</p>
<b>Class II</b> September 4	<p><b><u>Trade, Balance of Payments and FX Rates</u></b></p> <ul style="list-style-type: none"> <li>• Foreign Exchange Market; Trade Theory</li> <li>• Balance of Payments Accounting and Interpretation; Globalization Pro/Con</li> <li>• Introduction to The Finish Maarka case</li> </ul>	<p style="text-align: center;"><u>Case Study 1 Presentation</u></p> <p style="text-align: center;"><b>Fun in Finland The Finish Maarka</b></p>	<p style="text-align: right;"><u>Read:</u></p> <p>Multinat. Bus. Fin., pp., 68-86, 180-185, 188-189, 193-196 Case: Fun in Finland - Cases in Intl. Finance, pp. 3-8</p>
<b>Class III</b> September 11	<p><b><u>Spot and Forward FX Rates: What sets them? How to forecast them?</u></b></p> <ul style="list-style-type: none"> <li>• Inflation Theory, Forecasting Exchange Rates, Implications: Floating vs. Fixed Rates, PPP/Forward Rates</li> <li>• Capital Asset Theory of FX rates</li> <li>• Introduction to Turkey, Chinese Yuan cases</li> </ul>	<p style="text-align: center;"><u>Case Study 2 Presentation</u></p> <p style="text-align: center;"><b>The Finish Maarka</b></p>	<p style="text-align: right;"><u>Read:</u></p> <p>Multinat. Bus. Fin., pp., 102-123, 141-148 Case: The Finish Maarka case- provided by Professor</p>
<b>Class IV</b> September 18	<p><b><u>Measuring Transaction/Translation FX Exposure; Hedging Options</u></b></p> <ul style="list-style-type: none"> <li>• Measuring FX Exposure; Translation vs. Transaction Exposure; Hedging Alternatives</li> <li>• Introduction to Lufthansa, Wooden Stake cases</li> </ul>	<p style="text-align: center;"><u>Case Study 3 Presentation</u></p> <p style="text-align: center;"><b>Turkey, Revaluation of the Chinese Yuan</b></p>	<p style="text-align: right;"><u>Read:</u></p> <p>Mltinat. Bus. Fin., pp. 253-257, 335-342, 207-221 Case: Revaluation of the Chinese Yuan; MBF 59-63 Turkey- Cases, et. al. pp. 12-31</p>
<b>Class V</b> September 25	<p><b><u>Economic/Operating Exposure, Operational Hedges &amp; Hedging Theory</u></b></p> <ul style="list-style-type: none"> <li>• Operating FX exposure; Exchange Risk in Business and Investment Strategy When/Whether to Hedge</li> <li>• Introduction to Capstone Case I Kemica FX Policy- provided by Professor</li> </ul>	<p style="text-align: center;"><u>Case Study 4 Presentation</u></p> <p style="text-align: center;"><b>Lufthansa, Wooden Stake</b></p>	<p style="text-align: right;"><u>Read:</u></p> <p>Multinat. Bus. Fin., pp. 301-321 Cases: Lufthansa - Multinat. Bus. Fin., pp. 278-279 Wooden Stake- Cases, et. al. pp.185-186</p>

**MODULE #2 – Foreign Investment, Risk & JV'S**

Date	Topic	Case Study Presentation	Readings
<b><u>Class VI</u></b> October 2	<b><u>Introduction to Foreign Investment Theory, Parent vs. Affiliate Economics</u></b> <ul style="list-style-type: none"> <li>• Foreign Investment Decision-Intro.</li> <li>• Affiliate vs. Parent Economics; Project Cost of Capital</li> <li>• Introduction to Imperial Power case</li> <li>• Operating FX exposure &amp; project economics</li> </ul>	<u>Case Study 5 Presentation</u> Capstone Case: <b>Kemica FX Policy</b>	<u>Read:</u> Multinat. Bus. Fin., pp. 526-539 Case: Kemica FX Policy-provided by Professor
<b><u>Class VII</u></b> October 9	<b><u>Integrating International Risk into Project Economics</u></b> <ul style="list-style-type: none"> <li>• Foreign Invest. cont. – Project bases, Risk assessment, required rates of return</li> <li>• Introduction to Soro Dondar cases</li> <li>• Midterm review</li> </ul>	<u>Case Study 6 Presentation</u>  <b>Imperial Power – Spain</b>	<u>Read:</u> Multinat. Bus. Fin., pp. 550-559, 562-563, 580-583, 593-597 Case: Imperial Power – Spain; Cases, et. al. pp. 72-76
<b><u>Class VIII</u></b> October 16	<b>MIDTERM EXAM</b>		
<b><u>Class IX</u></b> October 23	<b><u>The Formation, Rationale for and Economics of International JVs</u></b> <ul style="list-style-type: none"> <li>• Forming International JV's</li> <li>• JV Project Economics</li> <li>• Introduction to Capstone Case 2</li> <li>• Kemica Ethane Conversion Project</li> </ul>	<u>Case Study 7 Presentation</u>  <b>Soro Dondar (A) &amp; (C)</b>	<u>Read:</u> Multinat. Bus. Fin., pp. 539-544 Kemica Breakup Clause Cases: Soro Dondar (A) - provided by Professor Soro Dondar (C) - provided by Professor
<b><u>Class X</u></b> October 30	<b><u>Summary/Conclusion of International Investment Economics</u></b> <ul style="list-style-type: none"> <li>• Int. M&amp;A</li> <li>• Review of International Project Rationales, Risks, &amp; Economics</li> <li>• Midterm Exam Review</li> </ul>	<u>Case Study 8 Presentation</u>  Capstone Case Presentation: <b>Kemica Ethane Conversion Project</b>	<u>Read:</u> Multinat. Bus. Fin., pp. 614-621 Case: Kemica Ethane Conversion Project Provided by Professor

**MODULE #3 – Funding International Operations: Centralized & Project Finance**

Date	Topic	Case Study Presentation	Readings
<p><b><u>Class XI</u></b> November 6</p>	<p><b><u>Introduction to International Funding and Taxation</u></b></p> <ul style="list-style-type: none"> <li>• Issues in Funding International Operations</li> <li>• Firm Organization w/ Foreign Operations</li> <li>• Introduction to International Taxation</li> <li>• Introduction to Dallas Semiconductor case</li> </ul>		<p><u>Read:</u> Multinat. Bus. Fin., pp. 676-685, 690-694, bottom pg. 698</p>
<p><b><u>Class XII</u></b> November 13</p>	<p><b><u>Financing Options and Economics for Foreign Operations</u></b></p> <ul style="list-style-type: none"> <li>• Centralized vs. Project Finance Decision</li> <li>• Introduction to Leveraging Kemica case</li> </ul>	<p><u>Case Study 9 Presentation</u></p> <p><b>Dallas Semiconductor</b></p>	<p><u>Read:</u> Multinat. Bus. Fin., 698-700, 438-443 Case: Dallas Semiconductor; Cases, et. al. pp. 225-227</p>
<p><b><u>Class XIII</u></b> November 20</p>	<p><b><u>'Stand-Alone' Financing of International Operations</u></b></p> <ul style="list-style-type: none"> <li>• Project Financing and Risk Mitigation;</li> <li>• Costs/Benefits of Project Financing;</li> <li>• Use of ECA's &amp; MLA Financing</li> <li>• Introduction to Soro Dondar B case</li> </ul>	<p><u>Case Study 10 Presentation</u></p> <p><b>Leveraging Kemica</b></p>	<p><u>Read:</u> Project Financing- Introduction Multinat. Bus. Fin., pp. 451-454 Case: Leveraging Kemica – provided by Professor</p>
<p><b><u>Class XIV</u></b> December 4</p>	<p><b><u>Operating Internationally under High Inflation</u></b></p> <ul style="list-style-type: none"> <li>• Causes and Impacts of High Inflation; Indexation; Financing under High Inflation</li> <li>• Discussion of Esso Brasileira case</li> <li>• Final Exam Preview</li> </ul>	<p><u>Case Study 11 Presentation</u></p> <p><b>Soro Dondar B</b></p>	<p><u>Read:</u> Multinat. Bus. Fin., pp. 713-715, 719-727 Cases: Soro Dondar B – provided by Professor Esso Brasileira- provided by Professor</p>

## **Final Words:**

### **Academic Honesty:**

The University of Houston Academic Honesty Policy is strictly enforced by the C. T. Bauer College of Business. No violations of this policy will be tolerated in this course. A discussion of the policy is included in the University of Houston Student Handbook, <http://www.uh.edu/dos/hdbk/acad/achonpol.html>. Students are expected to be familiar with this policy.

### **Accommodations for Students with Disabilities:**

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.