

International Finance -Fall 2005
University of Houston MBA Program – FINA 7360
Professor Stephen V. Arbogast

This course aims to equip future executives with the concepts and tools necessary to relate international finance to business strategy. 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 within their organizations; the course also seeks to equip finance professionals to formulate recommendations that decision makers will find relevant and helpful in addressing their business problems.

To achieve these objectives, the course will employ case studies. These cases will usually be analyzed from the perspective of a senior financial executive; the applications of financial perspective to strategy, investment decisions and risk management will be emphasized. This involves students achieving a certain facility with key elements of financial theory and with the practical application of these concepts. Accordingly, each week one or more elements of international economic or financial theory will receive concentrated attention. This course will also emphasize the energy and petrochemical industries in the case studies taught.

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: Project Financing and Local Financial Environments

Classes will be taught as a mixture of lecture and case study discussion. Each student will be part of a team presenting a case study to the class. Students will also be expected to read all cases and comment actively on their colleagues' presentations.

The assigned texts are **Cases in International Finance**, second edition, Gunter Dufey and Ian H. Giddy; Addison- Wesley Publishing Company, and **Multinational Business Finance**, David K. Eiteman, Arthur I. Stonehill & Michael H. Moffett, tenth edition; 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 sarbogast@houston.rr.com or 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 250C at 5pm on Mondays and Thursdays.

The course topics, readings and case studies are outlined below. The first cases, Kemica (A) & 'Fun in Finland' will be posted on WebCT Vista before the beginning of classes. Read the cases as background to the first class (no written work required). We will do two other Kemica cases later, and Kemica (A) will also provide an introduction to several issues to be addressed during the course. 'Fun in Finland' will serve to illustrate how to analyze a case study and introduce foreign exchange/balance of payments issues. You should also read the section in **Multinational Business Finance** covering the International Monetary System

Good luck and enjoy the course!

Course Assignments

| <u>Week</u> | <u>Topics</u> | <u>Readings & Case Studies</u> |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>MODULE 1 – International Economics, Exchange Risk and Hedging</u> | | |
| 1. | Introduction to International Finance International Monetary System & Different Exchange Rate Systems | Cases: Kemica (A) Fun in Finland-Cases in Intl. Finance, pp. 3-8 Read: Multinat. Bus. Fin., pp., 23-39 |
| 2. | Foreign Exchange Market; Trade Theory; Balance of Payments Accounting and Interpretation; Globalization Pro/Con | Read: Multinat. Bus. Fin., pp., 47-61, 71-89 Case: The Finish Marka- provided by Professor |
| 3. | Inflation Theory, Forecasting Exchange Rates, Implications: Floating vs. Fixed Rates, PPP/Forward Rates | Read: Multinat. Bus. Fin., pp., 133-154, 166-174 Cases: Turkey- Cases, et. al. pp. 12-31 |
| 4. | Measuring FX Exposure; Translation vs. Transaction Exposure; Hedging Alternatives | Read: Multinat. Bus. Fin., pp. 197-198, 269-276, 94-108 Cases: Lufthansa-Multinat. Bus. Fin., pp. 187-193 Wooden Stake- Cases, et. al. pp.185-186 |
| 5. | Operating FX exposure; Exchange Risk in Business and Investment Strategy When/Whether to Hedge | Read: Multinat. Bus. Fin., pp. 243-260; 199-219 Case: Kemica FX Policy- provided by Professor |
| <u>MODULE #2 – Foreign Investment, Risk & JV'S</u> | | |
| 6. | Foreign Investment Decision-Intro. Affiliate vs. Parent Economics; Project Cost of Capital | Read: Multinat. Bus. Fin., pp. 417-431 Case: Imperial Power – Spain; Cases, et. al. pp. 72-76 |
| 7. | Midterm Exam | |
| 8. | Foreign Invest. cont. – Project bases, Risk assessment, required rates of return | Read: Multinat. Bus. Fin., pp. 442-445, 447-453 Cases: Soro Dondar (A) - provided by Professor Soro Dondar C - provided by Professor |
| 9. | Forming International JV's; Int. M&A | Read: Multinat. Bus. Fin., pp. 431-436, 585-594 Case: Kemica Ethane Conversion Project Provided by Professor |

MODULE #3 – Financing: Centralized & Project

- | | | |
|-----|----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| 10. | Financing Foreign Operations | Read: Multinat. Bus. Fin., pp. 489-505 Case: Dallas Semiconductor; Cases, et. al. pp. 225-227 |
| 11. | Centralized vs. Project Finance Decision | Read: Multinat. Bus.Fin., 505-508, 352-357 Case: Leveraging Kemica – provided by Professor |
| 12. | Project Financing and Risk Mitigation; Costs/Benefits of Project Financing; Use of ECA's & MLA Financing | Read: Project Financing-Introduction provided by Professor Multinat. Bus. Fin., pp. 365-367 Case: Soro Dondar B -provided by Professor |
| 13. | Causes and Impacts of High Inflation; Indexation; Financing under High Inflation | Read: Multinat. Bus. Fin., 9 th ed., pp. 564-571 Cases: Esso Brasileira-provided by Professor |