Wharton
UNIVERSITY OF PENNSYLVANIA

International Corporate Finance, FNCE 731/FNCE 208
Fall 2017

Professor Richard Marston    Office Hours
Telephone: 215-898-7626    Monday: 3:00-4:30 or by
Email: marstonr@wharton.upenn.edu    appointment, 2438 SH-DH

Course Syllabus

Description of topics: The course begins by asking how are exchange rates and financial markets related – by arbitrage and by equilibrium pricing relationships, and how can foreign exchange risk be hedged. Then the focus shifts to longer-term issues of international corporate finance. Key corporate financial issues are explored including exchange rate exposure, securities pricing, sovereign risk, the cost of capital, taxation, and the evaluation of foreign projects.

Prerequisites: A thorough knowledge of FNCE 611/100 (Corporate Finance) is assumed.

Reading material: Cases and readings as well as class charts are available on Study.net.

Text: Class notes prepared by Prof. Karen Lewis provide an invaluable introduction to many of the topics in the course. These class notes are available on Canvas. There is no textbook in the course. For later topics in the course not covered by Prof. Lewis’s notes, there are chapters taken from textbooks included in the Study.net readings.

Cases: There are three cases, one sovereign risk project, and four problem sets/exercises that will be discussed in class. Students must form case study groups of 3 to 5 students to prepare the cases and other assignments. All team members are responsible for these assignments. Every student in the group must retain a copy of the write-up and bring it to the class where the case or problem set is discussed. Assignments are due at the beginning of class.

Grading: You must submit write-ups for the case studies, the sovereign risk project and one of the problem sets. The exams are mandatory. The final grade will be awarded as follows:
Exams: 60%
Cases, projects and problem sets: 30%
Class participation: 10% (including discussion of cases and other assignments)
A numerical weighted average will be computed.
Important Notice: There will be two mid-term exams on the following dates:

Wednesday, October 18th (in class)
Wednesday, November 29th (in class)

Please make a note of these dates. There will be no specific makeup exams for these exams. If either exam is missed, it is necessary to take a makeup exam covering the entire course to be given at the beginning of the spring term. There will not be a final exam in the course.

Exam policy:
In the exams, students will be allowed to bring in a one-page “formula sheet”. Calculators will also be needed. Exams may (almost surely will) contain questions regarding cases. There will be a review session on the Monday night before each exam at 6 p.m.

Course Topics

Note: For dates of each class and due dates for assignments, see the course schedule.

FIRST HALF

Classes 1-3. Short-run exchange rate behavior: interest parity and expectations

Notes by Prof. Karen Lewis (Lewis notes), Section I, “Introduction to Foreign Exchange and Eurocurrency Markets”
Lewis notes, Section II, “Forward Hedging and Interest Parity”

Assignments (see schedule distributed in class and posted on Canvas):
Problem set on Arbitrage (due Wednesday, September 13)
Problem set on Expectations (does not have to be submitted)

Classes 4 and 5: Hedging I: Hedging with Forwards and Options

Lewis notes, Section III, “Hedging Part 1: Foreign Exchange Options” (Part B only)

Assignment: Case 1: Triple Net Inc. (due Monday, October 2nd)
Problem set on Hedging I (does not have to be submitted)
Classes 6-8. Hedging II: Multi-year cash flows and hedge ratios

Lewis notes, Section IV, “Hedging Part 2: Longer Term Cash Flows”

Assignment: Problem Set on Hedging and Hedge Ratios II (does not need to be submitted)

Classes 9-10: Long-run exchange-rate behavior: PPP and Real exchange rates

Lewis notes, Section V, “PPP and Real Exchange Rate Risk”

Assignment: Case 2 Cemex: Cross Currency Debt and Exchange Rate Risk
(due Wednesday, October 11th)

Problem set on Real Rates (does not need to be submitted)

Classes 11-12: Foreign Exchange Exposure

Lewis notes, Section VI, “Exchange Rate Exposure”


Review Class (Monday, October 16, 6 p.m.)

Class 13: EXAM # 1 (Wednesday, October 18th in class)

Special Topics: In addition to the assigned topics listed, there will be special topics introduced when time is available.

Special Topic 1: The “Euro” - Origins
Special Topic 2: Mexican Devaluation of December 1994
Special Topic 3: The “Greek” crisis
Special Topic 4: Argentina and Brazil: Shifting Fortunes
Special Topic 5: Do Countries Inevitably Slow Down?
Special Topic 6: Brexit
SECOND HALF

Class 14: Sovereign Risk

Lewis notes, Section XI, “Country and Political Risk”

Assignment: Sovereign Risk Project (due Wednesday, November 8th)

Classes 15-16: International Debt Pricing


Assignment: Problem Set on International Debt (does not need to be submitted)

Class 17: International Equity Pricing

Lewis notes, Section VII, “International Portfolio Investment and Cross-Border Valuation”


Class 18-19: Cost of Capital for International Investments

Lewis notes: Section IX “International Cost of Capital”


Assignment: Case Study 3: GM Plant X Brazil Part 1 (due Wednesday, November 15)

Class 20: Sovereign Risk Lecture by Kathleen Barthmeier, Managing Director at WP Carey (Monday, Nov 20th)
Class 21-22: Capital Budgeting for International Investments

Lewis notes: Section X “International Capital Budgeting and Valuation”


**Assignment:**
*Case Study 3: GM Plant X – Brazil, Part 2* (due Wednesday, December 6)

Class 23: International Taxation

Lewis notes: Section VIII “Tax Dimension and Planning”

Review class: Monday, November 27, 6 p.m.

Class 24: EXAM # 2 (Wednesday, November 29 in class)

Class 25: Presentations of Sovereign Risk Project (Monday, December 4)

Class 26: Discussion of GM Plant X – Brazil Part 2 (Wednesday, December 6)