

Syllabus

Multinational Business Finance

Course Objectives

Our aim in this course is to become familiar with international capital markets, to understand the economic forces at play, to become familiar with some important details of international capital markets, and to develop the principles of corporate finance in a global economy. We will examine:

- Basic concepts in the global economy (exchange rates, balance of payments, etc.)
- Financial instruments in open economies (forward exchange rates, futures markets for foreign exchange, foreign exchange options and other derivatives, etc.)
- The economic forces at work in international financial markets (exchange rate determination, interest rate parity, foreign exchange risk, real exchange rates, the global capital asset pricing model, etc.)
- Specific features of international capital markets (the foreign exchange market, international debt markets, international equity financing, etc.)
- The economic principles of corporate finance in a global economy (capital budgeting, currency hedging, etc.)
- The global financial crisis (its origins and the policy responses.)

There are two unifying themes to the objectives in this course. First, we want to pay special attention to the problems and issues of financial decision making that arise from firms engaging in the global economy. The most obvious example of this is foreign exchange risk, but there are many other examples that we will encounter over the semester. (Whether a firm should cross-list its equities, and how they can do that; how a firm can borrow on international capital markets; how to assess the risk of acquiring a foreign firm – these are some of the problems we will confront.)

The second theme is that we want to understand the economics behind decisions the firm takes, or the economics of how international financial markets work. In other words, our goal is not simply to learn a list of terms or facts about global markets, or rules of thumb for corporate finance of a multinational firm. Instead we want to know why firms should do things one way instead of another, and why international capital markets act the way they do.

Textbook

It is very important that everyone acquire the textbook. It will be the only source of readings for the first 13 (out of 15) weeks of the semester:

Bekaert, Geert, and Robert J. Hodrick. 2009. International Financial Management (Pearson)

Readings and Quizzes

There will be a reading assignment for each class. Everyone is expected to come to class having read and studied the readings. In addition, I will assign homework problems that relate to the important parts of the reading, and provide the answers to the homework. These problems are not to be turned in, but are there to help you learn the material. The homework usually will come from the section at the end of each chapter labeled “Problems.”

Each Monday, in the last 15 minutes of class, there will be a quiz on the readings (the readings assigned for that day, and for the previous Wednesday.) The quizzes won’t consist of in-depth questions. Rather they are meant to offer additional incentive to keep up with the work. At the end of the chapter of the textbook, there is a “Summary” and “Questions”. These are good things to study, and the Questions are similar to the ones that I will ask on the quizzes. It is possible that I will ask a simple problem on the quiz as well.

In addition to the quizzes, there will be two exams (Wednesdays, March 4th and April 22nd) that will be more in depth, including problems that are more in depth.

Reading Assignments

At the end of each class, I will give the reading assignment for the next class session. I’ll go back to my office and post the reading assignment on the class website right away. The point here is to be a little flexible – if some of the chapters take more (or less) time than I anticipate, we want the flexibility to adjust. The readings on the global financial crisis will be assigned later in the semester.

Here is the URL for the class website: <http://www.ssc.wisc.edu/~cengel/Finance745.htm>

The following calendar, therefore, is very tentative. I think we will be able to cover some of the earlier chapters more quickly than some of the later ones.

1/21 (W) – ch. 1
1/26 (M) – ch. 2 – quiz
1/28 (W) – ch. 3
2/2 (M) – ch. 4 – quiz
2/4 (W) – ch. 5
2/9 (M) – ch. 5 – quiz
2/11 (W) – ch. 6
2/16 (M) – ch. 7 - quiz
2/18 (W) – ch. 8
2/23 (M) – ch. 9 – quiz
2/25 (W) – ch. 9
3/2 (M) – ch. 10
3/4 (W) – exam
3/9 (M) – ch. 11 - quiz
3/11 (W) – ch. 12
3/23 (M) – ch. 13 – quiz
3/25 (W) – ch. 13
3/30 (M) – ch. 14 – quiz

4/1 (W) – ch. 15
4/6 (M) – ch. 15 – quiz
4/8 (W) – ch. 17
4/13 (M) – ch. 20 – quiz
4/15 (W) – ch. 21
4/20 (M) – ch. 21
4/22 (W) – exam
4/27 (M) – crisis readings - quiz
4/29 (W) – crisis readings
5/4 (M) – crisis readings – quiz
5/6 (W) – crisis readings

Grades

There are two exams (Wednesday, March 4th, and Wednesday, April 22nd.) Please check your calendars now, and make sure you do not plan to travel or interview on those dates.

There are 12 quizzes, all on Mondays (1/26, 2/2, 2/9, 2/16, 2/23, 3/9, 3/23, 3/30, 4/6, 4/13, 4/27, and 5/4.) The quiz takes place during the last 20 minutes of class. There are no quizzes the Monday before a Wednesday exam.

Each exam will count for 1/3rd of your final grade. The quizzes will count for the other 1/3rd. I will only count your best 8 quiz scores.

If you have to miss a quiz, I won't schedule a make-up. I simply will count that quiz as one of your 4 "bad" quizzes. Use this privilege wisely.

Office Hours, etc.

My office is 7460 Social Sciences building. Official office hours are 11 AM – noon, MTuW. My office phone is 262-3697. My email address is cengel@ssc.wisc.edu

I am at my office most of the time during the day even when it is not my office hours. But there are some times when I won't be available. I teach another class MW, 9:30-10:45. I run a seminar on Tuesdays, 3:45-5:15. I also plan to have lunch with the Ph.D. students I advise, probably each Thursday from 12:30-1:30.

By the way, my web page has information about my own interests and research, if you are interested. Here is the URL: <http://www.ssc.wisc.edu/~cengel/>