Corporate finance in an international environment

This course concerns all the elements that affect the finances of a company when it crosses an international border. When it does so, many factors change. The financial system, the legal environment will probably be quite different. The currency changes. Regulatory problems as well as problems associated with ownership and changes in ownership of listed companies may occur. Some of the changes may be big, others small, according to the countries. We will learn about the factors that cause these changes and how to evaluate their impact on firms.

Course outline:

1. Financial Institutions and Markets:

Financial systems and sources of funding available to firms vary between continental European countries, Japan, the UK, and the US. After examining those differences, we will analyse the importance of institutions in explaining global differences in corporate finance, and study the corporate ownership structures in France, Germany, Japan, the U.K., and the US.

Readings:

- *Banks and Markets: The Changing Character of European Finance*. Raghuram G. Rajan, University of Chicago & NBER and Luigi Zingales, University of Chicago, NBER, & CEPR.
- *Studies in international corporate finance and governance systems: a comparison of the U.S., Japan & Europe*. Edited by Donald H. Chew. Oxford University Press, 1997.

2. Fundamental decisions of multinational firms: Investment decisions and financing decisions

Foreign investment can take the form of "direct" investment or "portfolio" investment. We will examine why a company invests abroad and the different forms this investment may take. Investment incentives can be classified in three groups: fiscal, financial and non-financial. Investing abroad raises various questions that we will analyse through theories of international finance: the purchasing power parity theory, the interest rate parity theory, the international Fisher effect, and the theory of efficient markets.

Funding investment abroad is another fundamental decision. We will examine the relevance of capital structure in an international environment. The cost of funding varies according to different capital markets. Borrowing abroad is subject to restrictions and constraints. Agency costs, asymmetric information and taxes are to be considered before making the choice of the financing instrument.

Case study

3. Exchange rate systems and policies

Review of different exchange rate systems. Study of foreign exchange markets. Analysis of differences in the ECB and Fed goals and policies. Evolution of the euro and the dollar. Foreign exchange exposure risk. Foreign exchange exposure mangement instruments. Techniques for hedging foreign exchange risks.

Readings: Chap 4 & 5 of the book *International Financial Management*, Eun & Resnick, Mc Graw-Hill

4. Determinants of cross-border mergers and acquisitions

Takeover types and motives will be analysed. Theories of M&A activity will be examined. Factors favoring cross-border M&A and barriers to takeovers will be reviewed before examining the alternative—M&A or partnership? We will then look at recent developments in M&A activities and European takeover trends. Also trends in takeover and merger regulation.

Two case studies: one example of M&A in the European banking sector and one in the industrial sector.

5. Corporate governance

Corporate governance practices in France, Germany, Japan, the U.K., and the US.

Readings in Volume II of *Recent Developments in Corporate Finance* (Edited by Jay R. Ritter, 2005):

- "A Survey of Corporate Governance", A. Shleifer and R. Vishny.
- "Agency Problems and Dividends Policies around the World", R. La Porta, F. Lopez-de-Silanes, A. Shleifer, and R.Vishny.
- "The Separation of Ownership and Control in East Asian Corporations", S. Claessens, S. Djankov and L. Lang.

Homework: Research to be done on corporate governance in one bank to be chosen in each of the five countries.

6. Corporate governance: are the models converging?

In these times of globalization, one important question that arises is whether one particular national corporate governance system is better than another, and whether national governance systems will converge. What are the factors of convergence and resistance? And if convergence does occur, does that mean that systemic differences will disappear, leaving only one model, or are we witnessing a dual convergence leading to a hybrid model, specific to each system according to the dependency path?

A short exam will be given during this last meeting.

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Evaluation: The final grade will be based on: 3 assignments (45%) based on case studies and done in groups with 3 to 4 students, a short exam as part of the last class (45%), and class participation (10%). Class participation will be evaluated by the instructor over the term and will take into account attendance and active participation in class discussions.