

International Corporate Finance (FIN B40.3164): Course Outline
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Course Objectives & Philosophy

- A. To emphasize the pragmatic applications of theory. Dr. Abuaf, a former Chicago academic with 25 years of Wall Street experience will share his experiences with a wide array of his clients (see his bio), and will encourage students to comment
- B. To emphasize action learning and cross learning from classmates, we will use case studies, and group projects in addition to lectures
- C. To familiarize students with basic international macroeconomic and international corporate finance risk management concepts
- D. To analyze and discuss current macroeconomic and corporate finance trends using sound economic and finance theories
- E. To help students synthesize the theory, the empirical evidence, market color and various other constraints in making pragmatic corporate finance management recommendations
- F. ***To have fun*** by discussing cases, news articles and events

Course Requirements & Grading; Textbooks & Readings

- A. One Group Project (35%); Final Exam (45%); Class Participation (20%)
- B. The professor will distribute his lecture notes that will also be posted on the web
- C. The professor will distribute articles from the current financial literature
- D. Textbook: ***Multinational Business Finance***, by David K. Eiteman, Arthur I. Stonehill, and Michael H. Moffett (***Eiteman et al.***)

Week1: Markets and Hedging Instruments

- A. Overview of Major International Macroeconomic Concepts: Purchasing Power and Interest Rate Parity, Real vs. Nominal Interest Rates, Inflation Expectations, Fixed vs. Floating Exchange Rates, Dirty Floats, Exchange Rate Forecasting Models, Exchange Rates and Commodity Prices, Current Account Imbalances, Central Banks, Reserve Currencies. The case of the Euro, the Yuan, and the \$
- B. The Characteristics and Management of Foreign Exchange Risk: Volatility, The uses of Forwards, Futures, Options, and Swaps
- C. The Case of IBM and the World Bank: The First Multicurrency Swap
- D. Milton Friedman, Leo Melamed and the Birth of the Chicago MERC
- E. Reading Assignment: Chapters 3-5 in ***Eiteman, et al.***

Week 2: Managing Foreign Exchange Risk at the Corporate Level

- A. Transaction Exposure, Translation Exposure, Economic Exposure
- B. Economic, Tax, Accounting, Behavioral Considerations, Credit Lines and Mark-to-Market Risk
- C. Forex Risk in Developed vs. Emerging Markets
- D. Which Objective Function do We Optimize: Financial Ratios, Earnings per Share, or Economic Value (Share Prices)?

- E. The Case of the Whirlpool Corporation in the Brazil of 1990s
- F. The Case of the Baxter Corporation in Europe (2000s)
- G. Stock Market Reaction to Hedging Policies
- H. Reading assignment: Chapters 7-10 in *Eiteman et al.*

Week 3: International Valuation, Capital Budgeting, and M&A

- A. International Cost of Capital: Adjusting Cash flows vs. Discount Rates
- B. Estimating Political Risk Premiums: Yankee Bond Spreads, Human Development Index, P/E Multiples, Firm Value/EBITDA Multiple
- C. Privatization and Valuation of Telefonos de Mexico (Early 1990s)
- D. The Repsol – YPF Merger (Late 1990s)
- E. Reading Assignment: Chapters 16-19 in *Eiteman et al.*

Week 4: Variation of Capital Structure across Countries

- A. Optimal Capital Structure: The Weighted Average Cost of Capital Model, The Adjusted Present Value Model, The Empirical Evidence
- B. Why Capital Structure May Vary Across Countries?
- C. Why Swiss AAAs issue Converts?
- D. Country Sovereign Risk Ceiling and its Violations: Tel. de Argentina and Repsol
- E. Borrowing in Low-, and Lending in High-interest Currencies: The Yen Trade
- F. The Case of a Mega European Multinational
- G. Reading Assignment: Chapters 11-15 in *Eiteman et al.*

Week 5: Special Topics in International Corporate Finance

- A. How We Developed an Options Market in Argentina: The Backstop Fund 1998
- B. Liability Management for the Republic of Turkey: 2000
- C. Trapped Overseas Cash for US Multinationals: The Case of Pharmas (Pfizer), and Techs (Microsoft, Intel)
- D. Enterprise Risk Management in an International Context: The Use of Value-at-Risk Concepts (VAR). How Telecom de Chile borrowed in the Yankee market by using VAR modeling?
- E. Comparative Advantage, International Corporate Strategy and the Rise of BRICs
- F. Cases Related to Outsourcing and Logistics (Intel, Walmart, Wall Street Research)
- G. Presentation of Group Projects
- H. No specific readings from the main textbook for this week and next week. For these weeks, I will distribute some of my own publications, and current articles from other sources. During the last two weeks, we will devote most of our time to discussing cases. You may choose your Group Project Topics from the topics listed under Weeks 5 and 6.

Week 6: Special Topics in Corporate Finance Continued

- A. Sovereign Wealth Funds
- B. The Case of Abu Dhabi Investment Corp and Citigroup
- C. Venture Capital, Hedge Funds, and Private Equity in an International Context
- D. Capital Structure Arbitrage and Activist Hedge Funds

- E. The Case of a US Private Equity Firm Managing its South African Investment
- F. The Case of a US Private Equity Firm Managing its Commodities Exposures
- G. Presentation of Group Projects
- H. Take home, open book Final Exam