

Course Syllabus «International Financial Management»

Утверждена
Академическим советом ООП
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Number of credits	4
Contact hours (h.)	32
Homework (h.)	82
Year	2
Course type	without using the online course

I. LEARNING OBJECTIVE, OUTCOMES AND PREREQUISITES

The key goal of the course «International Financial Management» is to provide the student with sufficient knowledge to understand the logic of the modern financial analysis of strategic decisions in multinational corporations including investment and financing policies.

After the course student will:

know:

- main features of multinational companies and explain why we should pay attention to international character of the company;
- key hedging techniques applicable to currency risk of international project;
- how and when to use derivatives as currency risk hedging instrument;
- the logic and the mechanism of raising the capital by multinational companies.

be able to:

- classify the risks of multinational corporation;
- evaluate the currency risk exposure;
- apply key asset pricing models to multinational companies;
- describe the process of raising the capital by multinational companies and analyze different instruments of capital markets available for multinational companies;
- take into account the international character of the business while making equity valuation;
- value the potential investment projects of the multinational company.

To follow the course «International Financial Management» basic courses in Accounting and Corporate Finance are a recommended prerequisite.

II. COURSE PLAN

Class 1 – 2. Introduction. Risks of international corporation.

What is multinational corporation? Key features. International operations of corporation. Corporation in global capital markets. Life cycle and decision-making process in multinational corporation. Risks of multinational corporation. Operating risks: pre-completion and post-completion risks for international project. Sovereign and institutional risks: macroeconomic risks and types of expropriation. Force majeure and world market risk. Adjustments for different types of risks.

Class 3 – 4. Currency risks of international corporation.

Types of currency risk. Transaction exposure. Economic (operating) exposure. Translation (accounting) exposure. Sources of transaction exposure: operating cash flows in foreign currencies; financing cash flows in foreign currencies. Hedging strategies: to hedge or no to hedge. Forward market hedge. Money market hedge. Option market hedge. Boeing Illustration. Some words on operational techniques.

Class 5 – 6. Required return of an international corporation. Cost of capital for international projects.

Cost of capital: approaches applicable for multinational corporation. Integrated and segmented markets. Market segmentation factors. Instruments lessening the negative effects of segmented capital markets. Asset pricing models for multinational corporation. Contribution of Global, National & Industry Factors to the cost of equity. Emerging markets' efficiency. Cost of equity valuation methods: classification based on transparency and market integration level. Local CAPM. Rene Stulz 1981 IAPM. Global CAPM: O'Brien, Stulz (1999). GCAPM: limitations. Disadvantages of basic asset pricing models. Godfrey – Espinosa Model (1996). DCAPM (2000) by Estrada. Cumulative method for return estimation. Cost of debt of multinational corporation. Costs of debt across Countries.

Class 7. International corporation in global capital markets 1: capital structure and debt capital markets.

Optimal Capital Structure for multinational corporation. Going below min WACC: theory. Tradeoff amendments for multinational corporation: Availability of capital, Diversification of cash flows, Foreign exchange risk, Expectations of international portfolio investors. Value of multinationalism. When and how to go to international capital markets. Money vs. capital markets: lifecycle reasoning. Multinational corporation in international debt capital markets. Types of corporate debt financing instruments. Cost of debt depending on debt instrument. Direct vs. Intermediated debt. Bank loans and syndicated credits. Bonds with embedded options. Domestic vs. Eurobond. Financial and informational covenants. Russian companies in global debt capital markets: statistics, strategy and barriers.

Class 8. International corporation in global capital markets 2: equity capital markets.

Motivations for public equity offers. Public offerings: lifecycle reasoning. IPO motives: financing investments, transferring wealth from new shareholders to existing shareholders, increasing liquidity. Growth companies' strategy for public offerings. Secondary shares public offering as a strategic step for stable companies. Some evidence on company's post-IPO results. Designing a strategy to source equity globally. Scheme of alternative paths for a company in global capital markets. Foreign equity listing and issuance. Alternative instruments to source equity in global markets.

Class 9. International projects: some valuation issues.

Logical value creation roadmap for international project. Choice of real or nominal cash flows for valuation purpose. Valuation in countries with hyperinflation environment. Discounting foreign cash flows converted to home currency. Discounting foreign cash flows with converted cost of capital. APV and WACC methodology for international projects: theoretical view. Accounting for standard and non-standard risks. Currency beta. Currency risk influencing cost of equity in segmented markets. Country risk adjustments. Scenario analysis. Incorporating political, liquidity and familiarity risks. Country risk adjustment: Goldman model. What to do if spreads in USD are not available.

III. GRADING SYSTEM

Your grade will be based on home assignments based on class work (mostly case studies) (60%) and final home exam assignment (40%). You should work together in teams of 3 – 4 on your cases and should hand in a joint solution with all of your names on it.

IV. METHODS OF INSTRUCTION

The following methods and forms of study are used in the course:

- Lectures (2 hours a week on average);
- Classes (2 hours a week on average, in-class case studies, work in small teams, presentations, discussion);
- Home reading (mostly supplementary);

- Self-study;
- Exam assignment.

V. RESOURCES

5.1. Main readings

1. Butler K.C. Multinational Finance: Evaluating Opportunities, Costs, and Risks of Operations [Electronic resource] / K.C. Butler. – Fifth ed. – Hoboken: John Wiley & Sons, 2015. – 681 p. – URL: <http://common.books24x7.com/toc.aspx?bookid=49686>
2. Grinblatt M. Financial Markets and Corporate Strategy / M. Grinblatt, S. Titman. – Second ed. – Boston; Toronto; London: Irwin/McGraw-Hill, 2002 (or later editions).

5.2. Supplementary readings

1. Bharat A.J., Omesh K. The Post-Issue Operating Performance of IPO Firms [Electronic resource] // The Journal of Finance. – 1994. – Vol. 49, No. 5. – 1699 – 1726 pp. – URL: <https://www.jstor.org/stable/2329268>
2. Butler K.C. Multinational Finance: Evaluating Opportunities, Costs, and Risks of Operations [Electronic resource] / K.C. Butler. – Fifth ed. – Hoboken: John Wiley & Sons, 2015. – 681 p. – URL: <http://common.books24x7.com/toc.aspx?bookid=49686>
3. Dallochio M., Fur Y.L., Salvi A., Quiry P., Vernimmen P. Corporate Finance: Theory and Practice [Electronic resource] / M. Dallochio, Y.L. Fur, A. Salvi, P. Quiry, P. Vernimmen – Fourth ed. – Hoboken: John Wiley & Sons, 2014. – 997 p. – URL: <https://ebookcentral.proquest.com/lib/hselibrary-ebooks/detail.action?docID=1800877>
4. Damodaran A. Investment Valuation: Tools and Techniques for Determining the Value of Any Asset [Electronic resource] / A. Damodaran. – Third ed. – Hoboken: John Wiley & Sons, 2012. – 974 p. – URL: <http://common.books24x7.com/toc.aspx?bookid=46153>
5. Espinosa R., Godfrey S. A Practical Approach to Calculating Costs of Equity for Investments in Emerging Markets [Electronic resource] // Journal of Applied Corporate Finance. – 1996. – Vol. 9, No. 3. – 80 – 90 pp. – URL: <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1745-6622.1996.tb00300.x>
6. Estrada J. Systematic risk in emerging markets: the D-CAPM [Electronic resource] // Emerging Markets Review. – 2002. – Vol. 3, No. 4. – 365 – 379 pp. – URL: <https://www.sciencedirect.com/science/article/pii/S1566014102000420>
7. Hulle C.V., Huyghebaert N. Structuring the IPO: Empirical evidence on the portions of primary and secondary shares [Electronic resource] // Journal of Corporate Finance. – 2006. – Vol. 12, No. 2. – 296 – 320 pp. – URL: <https://www.sciencedirect.com/science/article/pii/S0929119905000416>
8. Ivashkovskaya I.V., Ponomareva O.A. Empirical analysis of IPO motivation and operational efficiency in CIS countries [Electronic resource] // Journal of Corporate Finance Research. – 2008. – Vol. 4, No. 8. – 5 – 22 pp. – URL: <http://ecsocman.hse.ru/text/23542761>
9. Kim W., Weisbach, M.S. Motivations for public equity offers: An international perspective [Electronic resource] // Journal of Financial Economics. – 2008. – Vol. 87, No. 2. – 281 – 307 pp. – URL: <https://www.sciencedirect.com/science/article/pii/S0304405X07001791>
10. O'Brien T.J. The Global CAPM and a Firm's Cost of Capital in Different Currencies [Electronic resource] // Journal of Applied Corporate Finance. – 1999. – Vol. 12, No. 3. – 73 – 79 pp. – URL: <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1745-6622.1999.tb00032.x>
11. Pagano M., Panetta F., Zingales L. Why Do Companies Go Public? An Empirical Analysis [Electronic resource] // Journal of Finance. – 2002. – Vol. 53, No. 1. – 27 – 64 pp. – URL: <https://onlinelibrary.wiley.com/doi/abs/10.1111/0022-1082.25448>

12. Stulz, R.M. A model of international asset pricing [Electronic resource] // Journal of Financial Economics. – 1981. – Vol. 9, No. 4. – 383 – 406 pp. – URL: <https://www.sciencedirect.com/science/article/pii/0304405X81900052>

5.3. Software

№	Name	Access conditions
1.	Microsoft Windows 7 Professional RUS Microsoft Windows 10 Microsoft Windows 8.1 Professional RUS	<i>From the university's internal network (contract)</i>
2.	Microsoft Office Professional Plus 2010	<i>From the university's internal network (contract)</i>

5.4. Professional databases, information reference systems, Internet resources (electronic educational resources)

№	Name	Access conditions
<i>Professional databases, information and reference systems</i>		
1.	Consultant Plus	<i>From the university's internal network (contract)</i>
2.	Electronic library system Urait	URL: http://biblio-online.ru/
<i>Internet resources (electronic educational resources)</i>		
1.	Open education	URL: http://openedu.ru/

5.5. Material and technical support of the course

Classrooms for lectures on the course provide for the use and demonstration of thematic illustrations corresponding to the program of the course, consisting of:

- PC with Internet access (operating system, office software, antivirus software);
- multimedia projector with remote control.

Classrooms for laboratory and self-study in the course are equipped with_____, with the ability to connect to the Internet and access to the electronic information and educational environment of HSE.