

Victoria International Applied Finance Programme

School of Economics and Finance

MMAF511 INTERNATIONAL CORPORATE FINANCE

Trimester 1 2010

COURSE OUTLINE

Contact Details

The course co-ordinator is Nigel Atherfold. Preferred contact is by email. Email address: nigel.atherfold@gtandco.co.nz.

The administrator for this course is Anna Potts, RH 307. She can be contacted on (04) 463 6148 or viaf-programme@vuw.ac.nz

Withdrawal from Courses:

Information available via

Withdrawal dates: Late withdrawals with Associate Dean (Students) permission
(See Section 8: Withdrawals - from the Personal Courses of Study Statute)

<http://policy.vuw.ac.nz/Amphora!~~policy.vuw.ac.nz~POLICY~00000001743.pdf>

Withdrawal dates: refunds:

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

Block Release Times

9:00am Fri 16th April – Sun 18th April 12:15 pm

and 9:00am Fri 18th June – Sun 20th June 12:15 pm

A detailed schedule of each block release course will be supplied closer to the April and June sessions.

Attendance at all sessions of both block releases is compulsory.

Course Objectives

A thorough understanding of the conceptual foundations of international corporate financial decision making and their applications to support key financial decisions of multinational organisations as they would operate in New Zealand.

I will try as much as possible to make use of multinationals' use of international financial markets.

With respect to the text book, to save time, don't bother reading anything within the set chapters that seems irrelevant or that isn't specifically international corporate finance theory. For example, page 9

discusses the most admired and the least admired U.S corporations as published by *Fortune* annually. That discussion is not relevant. Skip it.

Course Learning Objectives

After completing the MMAF511 course students should be able to:

- Describe the general importance of financial economics to multinational financial management and the particular importance of the concepts of arbitrage, market efficiency, capital asset pricing, and total risk.
- Identify the basic factors affecting exchange rates in a floating rate system.
- List and describe the five key theoretical relationships among spot exchange rates, forward exchange rates, inflation rates, and interest rates that result from international arbitrage opportunities.
- Identify profitable currency arbitrage opportunities and calculate the profits associated with those arbitrage opportunities.
- Recommend the basic hedging strategy and techniques to be used by firms in specific situations to manage their currency transaction and translation risks.
- Describe interest rate and currency swaps and explain how they can be used to reduce financing costs and risk.
- Identify key indicators of country risk and economic health.
- Explain why firms may choose to raise capital overseas.
- Calculate the cost of capital for foreign investments and identify those circumstances under which that cost should be higher, lower, or the same as that for comparable domestic projects.
- Describe the five principal means of payment in international trade.
- Identify the advantages of a centralised international cash management program.
- Explain what growth options are, why they are of great importance to multinational firms, what factors affect their value, and how to incorporate them in a capital budgeting analysis.

These learning objectives will be assessed via two major assignments, two tests and performance at the two block releases.

Course Delivery

The contact hours of the course will be during the two block releases detailed above. During the rest of the trimester, students will be expected to be engaged in self directed study using their textbooks and material posted on blackboard, and completing assignments which will be posted on Blackboard.

Assignments

Assignment 1 due date: 4 pm, Thurs 1st April, 2010.

Assignment 2 due date: 4 pm, Thurs 3rd June, 2010.

Course Content

Weekend One		
Multinational Financial Management	The global corporate. The corporate finance function, role, and responsibilities. Multinationals.	Chapter 1 and refer readings below
Financing the multinational	Global equity and debt markets. The cost of equity and debt. CAPM. Bank debt and bonds. Access and use of offshore capital markets by multinationals. Relationship between domestic and offshore debt and capital markets. Financing working capital.	Chapters 12, 13, 14, 18, & 19
Foreign exchange markets	Determination of exchange rates. Organisation of the markets. History of NZ FX market. The intermediaries: banks, RBNZ, corporates, retail. Centralised exchange traded markets verses decentralised bi lateral markets. Spot market. Forward market. Market intervention.	Chapters 2, 7 and refer readings below
Interest Rate markets	Global markets. The difference between liquidity risk and interest rate risk.	Chapters 4 & 9

Weekend Two		
The Balance of Payments	What do the regularly reported macro economic variables mean from an International Corporate Finance perspective?	Chapter 5
Country Risk Analysis	What is it and how do we assess it?	Chapter 6
Corporate Strategy & Foreign Direct Investment	Why consider investing overseas?	Chapter 16
Capital Budgeting	What are the additional variables that have to be considered when considering an international investment? How do we include these variables in the capital budgeting exercise?	Chapter 17
Risk management of the multi national	The process of risk management – a framework <ul style="list-style-type: none"> • Exposure identification • Objectives • Policies • Performance measures • Operations 	Chapter 10 and refer readings below
Exposure identification	FX transactional exposure. FX economic exposure. FX translation exposure. Interest rate exposure.	Chapter 10
Hedging objectives	Does hedging add any value? To add value? To protect? To smooth?	Refer reading below
Risk Policies	A template. Examples. Probabalistic techniques: value at risk, earnings at risk.	
Operations	Transacting. Recording. Reporting. Measuring. Systems. Accounting standards (global standards, fair value accounting for derivatives). Deadly derivatives.	

Readings

The textbook provided for the course is:

A.C Shapiro Multinational Financial Management 8th edition.

I will use corporate examples as much as possible. While I will cover the material (below) in the block releases it will be expected that you will have introduced it to yourself by reading:

Multi national financing structure and best practice FX principles

www.greenwichtreasury.com/download/GTA_G31_report.pdf

History of NZ's currency, the role of the NZ central bank, and recent changes to their intervention tools.

http://www.rbnz.govt.nz/research/bulletin/2002_2006/2005mar68_1eckholdhunt.pdf

www.rbnz.govt.nz/finmarkets/foreignreserves/intervention/index.html

The role of hedging

BHP Portfolio Risk Management - A New Market Risk Management Strategy www.bhpbilliton.com. Go into search and type in "Risk Management Strategy". View Jane McCarthy's 09 Feb 2006 presentation.

Value at Risk

www.gsm.uci.edu/~jorion/oc/case.html and go to "Value At Risk"

www.gloriamundi.org/introduction.asp

Expected Workload

Total average workload of 200 hours. During the approximately 6 weeks of term prior to each block release, students will need to allow about 14 hours per week for study, research and preparation of assignments for this course. The two block courses each involve approximately 18 hours of work.

Materials and Equipment

It is necessary to bring a calculator to the block courses. During tests students will be allowed to use calculators, but not hand held or other computers.

Assessment Requirements

The following schedule of assessment applies:

Tests:	One test at each block release session based on the reading assigned for the period leading up to the block release and the material presented at the block release. Please bring your calculators.	60%
Participation:	For your efforts at the block release sessions and for tutorial questions.	4%
Assignments:	Two major assignments that count together for 36%. The first assignment is due 4 pm Thurs, 1 st April, 2010. The second assignment is due 4 pm Thurs, 3 rd June, 2010.	36%
Total Assessment:		100%

Note that students must attain an overall mark of 50% in order to achieve a passing grade.

Examinations

MMAF511 has no formal examination, but does have the two tests detailed above.

Penalties

Each of the assignments will be marked out of a maximum that diminishes by 5% for every day late, with a weekend counting as one day. The date of submission shall be taken as the date of delivery or the day of postmark if by post. There will be a final cut off date one week after the due date for each assignment after which no assignment can be accepted. The assignments will each carry a specified word limit. If an assignment exceeds the word limit, credit will be given only from the beginning of the assignment up to the word limit. No credit will be given for the portion of work extending beyond the word limit.

Mandatory Course Requirements

To pass, a student must attend all sessions of both block release courses.

Class Representative

A class representative will be elected at the start of the trimester, and that person's name and contact details will be available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

Communication of Additional Information

Additional information including assignment questions, details of the block course schedule, feedback on course assessments, etc will be provided via Blackboard, email or by post. Students are responsible for ensuring that the VIAF administrator, (email: viaf-programme@vuw.ac.nz), has their up to date email and postal addresses.

If you have, or become aware of, any health condition that could prevent you attending a VIAF compulsory block release, then you should notify the Programme Director immediately, preferably by email, dawn.lorimer@vuw.ac.nz.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of

future plagiarism, but access to the full text of submissions will not be made available to any other party.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

<http://www.victoria.ac.nz/home/about/policy>

AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support

http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/