Instructor: Hung-Gay Fung, Ph.D.
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Office hour: M,W, 10:00-12:00 noon or by appointment
Location: Tower 1113, UMSL
Class Meets: Monday, 6:55-9:35 PM, SSB 218

Required Materials

Text:

RECOMMENDED READINGS

Regular outside readings will enhance the understanding of the subject, and it is highly recommended. Students are encouraged to read the following regularly:

Newspapers: *The Wall Street Journal* and/or *The Financial Times*

Magazines: *Global Finance*
*The Far Eastern Economic Review*
*The Economists*
*Euromoney* or *Asia Money*

OBJECTIVE OF THE COURSE:

The objective of this course is to introduce students to international financial management issues, concepts and tools. This is a specialized course dealing explicitly with global financial decision-making facing the financial manager of a multinational firm. Conceptual skills for life-learning experiences are emphasized.

This course employs a lecture and case format to expose students to international financial and financial management issues, including financing, investment and exchange risk management. This course relies heavily on group discussions and term building.

PEDAGOGY
I believe in active learning. Active learning requires your active participation and involvement in all aspects of learning opportunities I have created for you in this course. You have opportunities to learn from me and your colleagues via multiple means of instruction: assigned reading, lecture, class discussion, group case analysis, presentation and research paper, daily newspaper reading, and in-class exams. In order to provide a theoretical framework for analyzing financial decisions in an international setting, classes would follow a more structured format – formal lectures before the mid-term exam. The first half of the course concentrates on introducing the intricacies involved in the management of currency risk in international foreign exchange markets. The second half of the course focuses on the application of currency risk management concepts and techniques in conjunction with the financing and investment decisions of a multinational corporation.

Underlying active learning that makes my teaching and your learning to achieve maximum effectiveness are two necessary ingredients: your preparation before class and your participation in class. Thus, I would ask you to come to class prepared by reading the relevant chapters and notes which will be posted on the course website before class. You should also attempt as many end-of-chapter problems as you can. Active learning also involves active participation in class discussions. With your participation, I can gauge our progress and your level of understanding and adjust accordingly in order for you to achieve maximum learning effectiveness. For the first half of the term, pedagogically we rely more on the use of exercises (numerical problems). We will also discuss current events with the aid of the Wall Street Journal to encourage open discussions. At the beginning of each class, we spend about 15 minutes in discussing the current events that may be of interest to us. You are welcome to send me events that pique your interest before class. I will try to incorporate the most relevant ones as soon as possible in our discussion.

After the mid-term exam, we rely primarily on cases. We focus on the application of the theoretical framework to analyze the specific topics in international financial management under realistic situations. Each week, we will go over the topics/chapters that are relevant for the case that will be presented in the following week. Typically, I highlight the important concepts as well as explain the specifics that deserve attention in preparing the cases.

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Grade determinations:

Test 30%
Cases Analysis 40%
(four cases: one presentation with write-up plus three write-ups only)

Home work assignments
Projects/homework* 30%

100%

*Write-up Projects and home work (in group)

(1) Write a short paper (about 5-10 pages), discussing the current issues about exports and imports in and out of the US and in Missouri.

(2) Write a short report on the foreign direct investments in and out of Missouri.

(3) A report on the “Financial Times financing”

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<td><strong>HGF case:</strong> “Toyota's Cautious Green Strategy”</td>
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3/02  6  (S) Foreign Exchange Chapter, Chap. 7
Chapter 7, problems: #4, 8, 9, 10

3/09  7  (S) Currency Futures and Options, Chap. 8
(DG) How to Advance Your Career, Case 29
Chapter 8, Problems: #6 7, 8

**Short Article:** Dual Currency Investments (DCI)

3/16  8  (S) Currency Swaps and Interest Rate, Chap. 9
Chapter 9 problems: #3 and 4.
(S) Exposure Management, Chapter 10

3/21-29  

**Spring Break**

**Mid-Term Take home**

3/30  9  **Group Presentation Starts:**
(DG) US Semi-Conductor, Case 15

4/06  10  (S) Managing and measuring economic exposure, chapter 11
*(Supplement):
The Walt Disney company's Yen Financing
Harvard Business case: 9-287-058

4/13  11  (S) Working Capital Management Chap. 19
*(DG) Thoughts While in a Sauna, Case 5

4/20  12  Continued
*(DG) Morris De Minas, Case 19

4/27  13  Foreign Direct Investment

(S) Foreign Investment, Chap. 15, 17
*(DG) Imperial Power-Spain, Case 8

5/04  14  (S) International Merger
(S) International Tax Management, Chap. 21

**Case Study:**
PACIFIC CENTURY CYBERWORKS: THE ROAD TO PRIVATIZATION
BY
International Finance
Fung Section

PAPER REQUIREMENT:

The paper should be typed, double spaced. Any topics related to international finance are acceptable. The length of the paper is about 15-20 pages (no limit on the pages is imposed). It would be desirable to consult with the instructor regarding the topic.

Case Study Preparation
Purpose:

The purpose of a case study is to provide students a scenario whereby given the limited information a decision has to be made. In reality, limited information is always a constraint on the financial manager. The critical element in the decision making process is that how the financial manager can fully utilize the available resources to make a logical decision.

Given the limited information, the most important problem is to identify the problem first. Once the problem is identified, the next step is to analyze the problem in order to have solution. In the process, assumptions have to make in order to facilitate analysis. The critical element in the recommendation is that whether the solution is robust to the assumption. In other words, various scenarios (sensitivity) analysis is important. As a result, the analyst needs to be aware of the assumptions made in the analysis and try very hard to ensure the recommendation is immune to different restrictive assumptions.

Written Part:

The paper (case report) should be self-contained, i.e., it does not require other references to understand the content of the report. The analysis should be as detailed as possible. However, if the analysis is too technical, it can be put into the appendix without interfering the flow of the presentation of the paper.

The report should contain an introduction, and a plan of action for the paper (i.e., organization of the paper). Different sections should be labeled, with concluding remarks. The paper should be typed, double-spaced. The page limit should not be a concern at this point (but terse enough to be clear but needs details for the reader to understand what is going on-- this is exactly what I mean by self-contained in the paper).
Presentation requirements:

I would prefer every one in the group has a chance to present the materials in the case. After all, the purpose of the presentation is to enable the students a chance to speak in front of people and answer questions. I do encourage audience to ask cortical questions. This is a chance to learn and experiment what the real world looks like in a conference.

The presentation should be logical and let the audience a sense where you are going and how to present the materials. Do not assume that the audience knows what you are doing!

Grade Determination

The performance of the group (as the case is submitted by the group) determines the grade (not individual with some exceptional case). As a result, it is important that the group performs well. I understand at times, there will be free-loader problem. If there is a problem, the students in the group should immediately report to the instructor so that appropriate actions could be taken. To be logical, the students try to be free-rider are hurting themselves in the long-run because it is a small world after all. The bad image they leave to the group members will hurt them later on as they will become your colleague in the future (you never know!!).

Suggested questions for the Cases:

These questions are only suggestive in nature. You do not necessarily have to follow them strictly.

U.S. Semiconductor

(1) Various plans for raising the fund are proposed by different groups of people in the firm. Evaluate them carefully and suggest a viable one.

(2) What is the corporate financing policy that the firm should adopt in light of exchange rate risk?

The Walt Disney company’s Yen Financing

(1) Should Disney hedge its yen royalty cash flow? Why or why not? If so, how much should be hedged and over what time frame?

(2) In light of the various other techniques for hedging currency exposures, why does a market for currency swaps exist? Who benefits and who loses in such an arrangement?
Thoughts While in a Sauna
(1) What are the maturities of the different FRN?
(2) What is the time horizon required for the fund? Relate the maturities of the FRN to the maturities of the fund required.
(3) As the risks of the different FRNs are different, how you want to invest in these instruments? At what risk level?

Morris De Minas
(1) What are the characteristics of the different financing options?
(2) What is the effective interest cost for these financing options?
(3) In addition to the explicit cost considerations, are there qualitative aspects of the financing options that need to be incorporated into the analysis for the decision?

Imperial Power-Spain
(1) What A fixed® costs should be allowed to increase with inflation over an extended period of time?
(2) Should working capital be treated as recaptured?
(3) should the project net present value in pesetas (in Spain) be measured before or after the dividend withholding tax?
(4) Should the cash flows evaluated in terms of the parent or subsidiary? Why?

PACIFIC CENTURY CYBERWORKS: THE ROAD TO PRIVATIZATION

1. What is the core business of PCCW in Hong Kong? What are the competitive advantages of PCCW in terms of competition, size, market share, and profitability?
2. What is the long-term prospect of PCCW in Hong Kong in terms of market share and profits?
3. What is the intrinsic value for PCCW? Is the current stock price over-valued or undervalued? What are the approaches used to value the market price of a publicly traded company?
4. Is HK$4.5 a fair offer price to the current minority stockholders?
5. Assess if the management and the board of directors have done enough to ensure the rights of minority stockholders to be protected in a going-private transaction?