

Fall 2019

FIN 422-101: International Finance

Bill Rapp

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NEW JERSEY INSTITUTE OF TECHNOLOGY
School of Management

Course Title: International Finance	Course Number: Fin 422-101	
Instructor: Bill Rapp	Semester: Fall 2019; W: 6-8:50 pm	Cullimore 110
Email: rappw@njit.edu	Telephone: 973-596-6414, Fax: 914-923-1416	
Office Hours: Wednesday 3:45 - 5:45pm or by arrangement		
Office: CAB 2002		

Class Schedule: Wednesdays 6-8:50 pm

Course Materials: International Financial Management 13th Ed., ISBN: 978-0-07-811262-1, Plus Readings and Handouts in Class or on Class Website: Canvas

Course Description: International Finance is an advanced level undergraduate course designed primarily for juniors and seniors majoring or minoring in business that have taken basic classes in finance, economics and business. *It thus assumes students understand basic finance, business and economic principles. If you have not had such courses, it is likely you will struggle.* The course introduces students to the *international* aspects of various financial concepts and markets and how firms can understand, manage and navigate some of their complexities. That is it shows the international or global dimensions of materials presented in various finance courses primarily from a firm management perspective. The course thus takes the perspective of managers facing international financial issues and evaluates some approaches that they can use to make decisions for their companies in a global context. While we consider and read about many firms, markets and organizations, the emphasis is on large companies and financial organizations in the so-called Triad countries of North America, Europe and Japan plus major MNEs from the BRICS [Brazil, Russia, India, China and South Africa].

Case studies and problems are used throughout the course to illustrate certain concepts that reflect the financial and accounting issues confronting managers when operating in a cross-border environment. The cases require students to examine diverse situations across a variety of firms by industry, size and geography with various outcomes in terms of business success and financial management. That is, students will see that making financial decisions in different national and cross-border environments is not easy and will frequently have different impacts depending on the competitive, market and regulatory context.

Because there is a abundance of material, students need to keep pace with the weekly assignments.

Further, course participation requires not just knowledge of the material but also demands critical and creative thought regarding applying this knowledge within specific situations and then discussing and explaining this with other students either in class or via Canvas.

Learning Goals & Learning Outcomes:

Learning Goal 1: Analytical & Problem Solving Skills

Learning Outcome 1.1 Demonstrates knowledge of business and financial concepts and the ability to apply these concepts to solve problems in an international context.

Learning Outcome 1.2- Ability to use quantitative methodologies as tools to help understand business and financial problems.

Learning Goal 2: Information & Communication Skills

Learning outcome 2.1 (Written Communication & Information Literacy) - Ability to write clear and concise answers to exams, problems and case summaries.

Learning Goal 3: Interpersonal Skills & Team Dynamics

Learning Outcome 3.1 Learn and manage to work effectively as a team member.

Learning Goal 4: Ethical Reasoning

Learning Outcome 4.1 Understand the moral implications and ethical schema of individual, financial and organizational decisions and actions in an international environment.

Learning Goal 5: Technological Skills

Learning Outcome 5.1 Ability to use technology for effective team management.

Learning Goal 6: Globalization

Learning Outcome 6.1 Understand global context in which financial decisions are made.

Course Policies: Absent a medical excuse verified by the Dean of Students assignments are expected to be turned in on-time according to the Syllabus below.

Course Deliverables:

Assignments (Team and Individual)

Case Studies (team)

Presentations (team)

Responses to case presentations (individual)

Exams (individual)

Quizzes (individual)

Problem Sets (individual)

Upon course completion students should have advanced and integrated their skills in several important areas of international financial management

**SYLLABUS
FIN 422-101
Fall 2019
(Bill Rapp)**

INTERNATIONAL FINANCE

Be warned! Because this covers international financial issues at an advanced level and is designed for seniors or juniors majoring or minoring in business it assumes students understand basic business, finance and economic principles and are prepared to do the study. Therefore, if you have not had the necessary background courses and/or are not committed to keeping pace with the assignments, please take another finance course.

The course will combine history, theory, and casework to provide a perspective on the problems and issues facing financial managers operating in a global context. Its focus is on the enormous and continuing changes in international business and global financial markets over the past several years and their impact on companies and countries. To highlight these changes in addition to the general readings on international business, money markets, and trade; various countries and geographic regions will be examined.

Time will be spent as well assessing the development of alternative models to Western corporate organization in terms of competitive strategies and their financial support to show the importance of understanding and analyzing the international competitive and financial environment from a flexible as well as a global perspective. This is because in many industries it will be seen Western firms' options are now constrained by foreign competition and that foreign firms and their financing options often set the worldwide competitive and financial agenda in those industries. This is a significant change since the 1950s and 60s when US multinationals and financial institutions and markets dominated the global business environment.

In order to develop this perspective more directly the course will be divided into teams that will in addition preparing the case presentations will be responsible for weekly reports on a specific country in terms of its government's economic policies, currency exchange rates, trade [exports and imports], balance of payments, FDI [in and out], central bank, interest rates and financial markets [bonds, stocks]. The Bloomberg terminals on the first floor of School Of Management and newspapers and periodicals available in the Library will be the best resources for this information. In addition, there will be a midterm and final exam question related to each team's country.

The country team reporting assignments are: team 1 – Canada; team 2- Mexico; team 3- China; team 4- India; team 5-Japan; team 6- UK; team 7- Germany.

Topics covered:

1. Beginning with the observable facts of globalization, international financial markets, and financial regulatory differences, the class will examine how and why firms operate differently between markets and countries and how this affects a firm's financial structure.

2. Still, to provide a common framework and basis for analyzing competitive advantage and its connection to finance in these different situations, the theory of trade and its relationship to foreign direct investment (FDI) and financing options will be assessed. Beginning with a relatively simple case, the analysis will become more complex and dynamic as the course evolves and cases of international sourcing and financing are addressed. **This section will include homework Problem Set #1 that poses these issues in concrete terms.**

3. This analysis will lead naturally to an examination of how changes in the competitiveness of countries, industries, and companies occur and the relationship between such competitive shifts and the success or failure of specific firms' financial policies and strategies. This analysis includes connecting a firm's position in the growth cycle and its FDI with its global financial strategies, support organizations and funding sources.

4. Because multinationals are the major actors and instruments of many of these changes in the international business environment, most of the cases studied will be based on their experiences, though we shall see that smaller firms also are involved in and impacted by international business. Indeed, our text, *International Financial Management, 13th Edition*, has several such examples. In certain situations, foreign economic actors, such as governments, corporations and markets as well as particular events, can impact even domestic businesses and vice versa. Therefore, all businesses must take into account changes in the global environment and their direct and indirect impacts on competition and competitiveness.

For example, US liberalization of telecommunications combined with dramatic technology developments has led to decontrol and significant expansion of communications including the global Internet that has redefined the finance industry, globalizing competition and markets.

5. These situations often involve regions as well as countries. So regional issues and themes will be addressed too, such as the EU, Eastern Europe, APEC, NAFTA, ASEAN and Mercosur.

6. As cost and price are closely intertwined with competitiveness, international money and financial markets, a key aspect of international business is foreign exchange effects. It is therefore important that students gain some understanding of global capital movements, money market fluctuations, derivatives, hedging and speculation. **Homework Problem Set #2 will help to give more reality to some of these concepts. Thus, it is important for understanding these issues that students at least try and complete the two problem sets. They will then have an opportunity to resubmit their answers for extra credit after solutions to the problems have been discussed in class and posted on the Canvas class website.**

7. Naturally, governments and central banks play a critical role in international business through a variety of policies and actions that directly and indirectly define and effect the international business environment and global finance. Therefore, some time will be spent examining such policies and actions in a variety of countries and market contexts for different types of businesses to gain a fuller appreciation of why such policies are taken and their likely influence on business and financial markets in different situations. How a business person can then respond to or influence such actions or events will be addressed as well.

While this is a large class, discussion is important in that students are expected to have done the readings and to have prepared and posted comments and questions on the class website based on various

course materials in addition to in-class discussion. **Your textbook, which is available at the bookstore and via Amazon also offers used and rental versions with two-day delivery for students or instant Kindle e-downloads. Thus, there is no excuse for not having the textbook from the beginning of class.** Also note that the in-class lectures and discussion will not be a rehash of what is in the text but will rather build on that material and will include handouts relating to current events. *You will be responsible for this additional material on exams.*

That is though the student presentations and the text's case studies will cover some of the same material, they will do so from different perspectives to convey alternative analyses and interpretations. Therefore, the lectures, PowerPoint slides and discussion are supplementary to the readings and not a substitute. To promote class interaction, the class will be divided into teams and each team will be given a case to present **using a PowerPoint presentation format** and another case on which the team members must *individually* comment and ask questions.

You are also each individually responsible for contacting other team members and participation in your team assignments. Assignments are also posted in the class calendar.

The student team case presentations in PowerPoint format will be presented during the Wednesday class and should then be posted on the class website along with the question posed by the team responsible for leading the case discussion. This means discussion will depend on having comments contributed both in class and on-line to the class website **"Discussion"** section. These ***individual*** comments will be tracked during the semester and will determine **5%** of your grade. *Thus, contributing to class discussion can add to your overall grade.* Check the class calendar on the class Moodle website regarding schedule for these assignments in addition to this Syllabus.

Further to manage the course efficiently, it is imperative each student has a njit e-mail address and that this is correctly posted on Canvas. Please check it is correct.

If a student has questions and wishes to meet with the instructor, please come during regular office hours, Wednesday 3:45-5:45PM (2002 CAB) or e-mail for an appointment.

There is no teaching assistant for the course. Case presenters should thus contact the instructor regarding issues on putting their detailed PowerPoint presentations on the class website under ***Discussion Forum***. These presentations should fully explain all key points in each case.

Since doing the readings and class attendance are critical to effective class interaction, it is important everyone is prepared to participate. Also, to ensure students are keeping up, there will be a problem assigned approximately every other week. The problems will be noted both in this syllabus and posted on the class website. Your answers will be due in the indicated class. **Please read this Syllabus carefully and note these times!**

There will be one take-home midterm and one take-home final exam in addition to the biweekly problems, team case presentation, team case comment, first trade problem set and second foreign exchange problem set and weekly country reviews as noted above.

In addition, students should try to gain some knowledge of major institutions, political issues, and financial risks of international business and related financial issues and markets by

reading major business magazines such as Fortune or Economist or business related articles in major newspapers such as the New York Times, Wall Street Journal or Financial Times. These are available through the NJIT Library or on-line. There is also the new Bloomberg terminal available through the School of Management. The lingering effects of the 2008-2009 economic crisis and the policies of the new US administration makes this especially important. As noted above these sources will also be invaluable to your weekly country reviews and related questions.

Student team case presentations and comments should be analytical rather than just descriptive in content and approach. Generally, when preparing team presentations or weekly country reviews, it is best to consider answering questions such as why, how, and what happened with respect to the specific and relatively narrowly defined business situation that the case is addressing or important economic or market events in your assigned country.

Then as already noted after class after class the presentations or weekly reviews should be posted in the “**Discussion Forum**” of the Class website. This schedule can also be checked in the “**Assignment Section**” of the class Canvas website. You can check with me by e-mail if you have problems posting them in the Discussion section. If you need to arrange a team meeting, you can also do this by e-mail. The members of the team commenting should post their *individual* questions and comments in the Discussion Forum after the case presentation. Additional comments and questions on a lecture, case, or country can be posted afterwards and if pertinent can add to your overall grade.

The final will be a take-home final and will be due **Monday December 16th by 11:55PM.**

Grades are composed of the Problems (10%), country reviews (10%) team case presentation (15%), case team and other discussion comments (5%), midterm exam (15%), problem sets (10%: 5% each) and final exam (35%) plus bonus points for additional case comments (up to 5). A D is 59.5-69.4; C is 69.5-77.4; C+ is 77.5-79.4; B is 79.5-87.4, B+ is 87.5-89.4; A is 89.5 or over. **The text for the course is International Financial Management by Jeffrey Madura (JM), 13th edition (ISBN 978-0-07-811262-1). Be sure to get the 13th edition. Copies are available at the NJIT bookstore or through Amazon. Amazon offers used copies and rental versions in paperback and e-formats with substantial discounts and quick delivery for all college students.**

With respect to your answers on the problems, the midterm and the final, these are individual efforts and no common or group answers will be accepted to any question. *Further, any material from the text should not be quoted but must be paraphrased in your own words!*

If you have questions, my office hours are Wednesday 3:45-5:45PM, 2d floor of the School of Management (Room 2002). You can also e-mail me for an appointment at rappw@njit.edu.

Students should read JM Chapters 1 and 2 before the second week!

Week 9/4/2019 Introduction and overview of the course with review of the Syllabus. The **International Financial Environment, Flow of Funds.**

JM Chapters 1 & 2 plus posted articles posted videos on Korea (“Hardtimes”) and American Presidents’ Line (“APL”)

Team assignments posted on class website by Friday the 6th. Students wanting to work together should notify Professor by September 5, 2019.

Week 9/11 **International Financial Markets, Determining Exchange Rates, Assessing what determines firm advantage in a goods, services or financial market?**

Reading: JM Chapters 3 & 4

1st Problem set is handed out in class and posted on Canvas website 9/11 and is due back Wednesday 9/25

Reading: Posted articles on Citibank in China plus Citi and Banamex.

First Problem [page 27 #33]!! (due in class September 11, 2019)

Week 9/18 **Hedging Exchange Rate Behavior**

Reading: JM Chapter 5, FX Crib Sheet, IPI Case

First Case Presentation on *Blades Inc.* [Chapters 1 & 3]

Foreign Exchange Game

Week 9/25 **Exchange Rate Behavior**

1st Problem set is due on Wednesday 9/25 in class

2d Problem [p 124 ST #3, Q&A #1, p 126 #21] due 9/25.

Reading: JM Chapters 6 & 7.

2d Case Presentation on *Blades, Inc.* [Chapters 4 & 6]

Week 10/2 **Connecting and Managing the FX and Economic Dots**

Readings: CH Chapters 8 & 9

3d Case (Team 3's Presentation): JAL and VW cases posted on Canvas Website

Week 10/9 **Different Exposures And Management Techniques, Avoiding Cash Pitfalls**

3d Problem [p 282 #41, p 317 #10, p 347 #28] due 10/9.

Reading: JM Chapters 10 & 11.

4th Case Presentation - *Blades, Inc.* [Chapters 9 & 10]

Week 10/16 **Mid-term Exam - Tests handed out in class and posted on class website on Wednesday October 16. Must be returned in Word or PDF by 11:55pm the following Wednesday the 23^d.**

No common or group answers accepted to any question and material from text should be paraphrased in your own words!

Week 10/23 **FDI, Long-term Asset Exposures, Netting**

Midterm Exam due by 11:55pm on Wednesday 10/23

Reading: JM Chapters 12 & 13.

2d Problem set handed out and reviewed in class and then posted on class website 10/23; due back Wednesday 11/6.

5th Case Presentation: *Blades, Inc.* [Chapters 11 & 12]

Week 10/30 **Difference Economic and Translation Exposures in Terms of Long-term FX risks that can impact Capital Budgeting, Financing Options, Corporate Governance, Product Cycles, BCG Matrix, Experience Curves**

4th Problem [p 407 #14, p 461 #s 16 & 18] due 10/30

6th Case Presentation – *International Processing Inc.*

Reading: JM 13 & 14. IPI case article

Week 11/6 **Country Risk Analysis Due National regulatory and tax differences. Tax-arbitrage and transfer pricing. Capital Structures and Real After-tax Cost of Capital.**

Reading: JM Chapter 14 Continued plus Additional Text Reading on Thai Baht and posted case readings on Asian Financial Crisis; Look at video posted on Ruble crisis. Also chapters Kindleberger's Manias, Panics and Crashes posted on class website.

2d Problem set due in class on Wednesday the 6th.

7th Case Presentation – *Blades, Inc* [Chapters 13 & 14]

Week 11/13 **International Business Strategies: Core Competencies, Organizational Structures, Management Controls, Country Risk and Global Expansion.**

5th Problem [p 495 #7] due Wednesday 11/13

Reading: JM Chapters 15 & 16

Week 11/20 **Long Term Debt, Capital Structures, Balancing FX Risks with Capital Costs, Liability Management [Is it a good idea for Polish Citizen to Finance Mortgage in Swiss Francs, Is it good idea Korean Company to Borrow LT in US \$s?]**

Reading: JM Chapter 17 & 18.

Week 11/27 *Thanksgiving Break*

Week 12/4 **International Business Functions: Financing Exports & Imports, ST Exposures**

Take home final posted [noon] on class website on Wednesday December 4th and due in Word as e-mail attachment (rappw@njit.edu) by 11:55 PM Monday December 16th or fax (914-923-1416).

Reading: JM Chapter 19 & 20

Week 12/11 Managing Global Operations For Cash Flows

Reading: JM Chapter 21

Week 12/16 – Take home final DUE in Word or pdf as e-mail attachment (rappw@njit.edu) by 11:55 PM Monday December 16th or by fax (914-923-1416).