

International Financial Management (國際財務管理)

Instructor

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財金一碩士班

COURSE OBJECTIVES & CONTENTS

The course aims at introducing the students to the markets in which corporate international financial managers have to deal and address the specific problems encountered by them such as the multiplicity of currencies, the partial segmentation of capital markets producing potential differences in costs of capital across the world, various tax jurisdictions and levels of investor protection.

During the course, international financial markets are discussed including the market for foreign exchange, the markets for forward contracts and other derivatives, and the international capital markets.

Specific topics are addressed in this context: Focus will be put on exchange risk exposure management, the international cost of capital, determinants of the financial structure of firms around the world, sources of global financing, and on project finance.

Furthermore, the financial management of multinational enterprises with regard to international investment decisions and multinational operations will be addressed – covering such issues as multinational capital budgeting and the management of intra-corporate fund flows e.g. transfer prices.

COURSE FORMAT

The course is lecture format including group cases and individual homework assignments which should be prepared by the students and are then discussed in class.

READINGS:

The course will *be based on* selected journal papers.

Further recommended literature is indicated for each topic. This is only tentative, preliminary and incomplete.

COURSE OUTLINE

PART I: The Foreign Currency Environment & Exposure Management

- 1) Foreign Exchange Markets, Foreign Exchange Parity Relations, Foreign Exchange Rate Determination
- 2) Exposure Management: Transaction, Operating & Translation Exposure and Hedging (including forward contracts and other foreign currency derivatives)

Allayanis, G. and J. P. Weston (2001), "The Use of Foreign Currency Derivatives and Firm market Value," *Review of Financial Studies*, 14,1. 243-276.

Biger, Nahum and John Hull (1983): The Valuation of Currency Options, *Financial Management*, Vol. 12, No. 1.

Bodnar, Gordon M., "1998 Wharton Survey of Financial Risk Management by U.S. Non-Financial Firms," *Financial Management*, Vol. 24, No. 4, Winter 1998, pp. 70-91

Miller, Kent D. and Jeffrey J. Reuer (1998) – Firm Strategy and Economic Exposure to Foreign Exchange Rate Movements, *Journal of International Business Studies*, Vol. 29 (3), pp. 493-514.

Nance, Deanna R., Clifford W. Smith Jr. and Charles W. Smithson (1993) – On the Determinants of Corporate Hedging, *The Journal of Finance*, Vol. 48 (1), pp. 267-284.

PART II: International Capital Markets & Financing of the Global Firm

3) International Portfolio Diversification and the Global Cost of Capital

Abuaf, N., "The International Cost of Capital - The Empirical Evidence," Salomon Brothers, 1997.

Lessard, D. R., "Incorporating Country Risk in the Valuation of Offshore Projects," *Journal of Applied Corporate Finance*, 1996, 52-63.

Fernandez, V. (2006): The International CAPM and the wavelet-based decomposition of Value at Risk, *NBER Working Papers 12233* (recommended by the ICCA)

Kwok, Chuck C.Y and David M Reeb (2000) – Internationalization and Firm Risk: An Upstream-Downstream Hypothesis, *Journal of International Business Studies*, Vol. 31 (4), pp.611-630

4) Financial Structure & Corporate Governance around the world (Debt vs. equity, role of the institutional environment, market vs. debt economies)

Dyck, A. and L. Zingales, (2004), "Private Benefits of Control: An International Comparison," *The Journal of Finance*, 59, 537-600.

Faccio, Mara; Lang, Larry H.P (2002): The ultimate ownership of Western European corporations, *Journal of Financial Economics*, Vol. 65 Issue 3, pp.365-395.

Fan, J. P. H./Titman, S./Twite, G. (2003): An International Comparison of Capital Structure and Debt Maturity Choices, *Working Paper*, Hong Kong University of Science and Technology.

LaPorta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert (2002): Investor Protection and Corporate Valuation, *The Journal of Finance*, Vol. 57 Issue 3, pp. 1147-1170.

5) Sourcing equity abroad (including cross-listings, Depository Receipts, and alternative instruments)

Eleswarapu, Venkat R. and Kumar Venkataraman (2006) – The Impact of Legal and Political Institutions on Equity Trading Costs: A Cross-Country Analysis, *Review of*

Financial Studies, Vol. 19 (3); pp. 1081-1111.

Miller, Darius P. (1999) – The Market Reaction to International Cross Listings: Evidence from Depository Receipts, *Journal of Financial Economics*, Vol. 41; pp. 103-123.

Pagano, Marco, Ailsa A. Röell and Josef Zechner (2002) – The Geography of Equity Listing: Why Do Companies List Abroad?, *The Journal of Finance*, Vol.57 (6); pp. 2651-2694.

- 6) Sourcing debt abroad (including international bond markets, syndicated loans, *Excursus: Islamic Finance*)

Doukas, J., C. Pantzalis (2003) – Geographic Diversification and Agency Costs of Debt of Multinational Firms, *Journal of Corporate Finance*, Vol. 9; pp. 59-92.

Zaher, Tarek S. and M. Kabir Hassan (2001) – A Comparative Literature Survey of Islamic Finance and Banking, *Financial Markets, Institutions & Instruments*, Vol. 10 (4); pp. 155-199.

- 7) Financing international projects

Esty, Benjamin C (2003): The Economic Motivations for Using Project Finance, *Working Paper*, Harvard Business School.

Esty, Benjamin C. and Megginson, William L. (2002): Creditor Rights, Enforcement, and Debt Ownership Structure: Evidence from the Global Syndicated Loan Market, *Journal of Financial and Quantitative Analysis*, Vol. 38 (1); pp. 37 – 59

- 8) Managing interest rates and currency rates associated with a multinational enterprise's capital structure (including swaps)

PART III: International Investment Decisions and the Management of Multinational Operations

- 9) The Multinational Enterprise (including Foreign Direct Investment, Cross-Border M&As, Restructuring)

- 10) Accounting and foreign operations (including major differences in International Financial Reporting Standards and the analysis of global operations)

Radebauh, Lee, Gray, Sidney and Ervin (2006). International Accounting and Multinational Enterprises, 6th edition, Wiley. Chapter

Recommended Literature:

Alexander David, Anne Britton and Ann Jorissen, Chapter *International financial reporting and analysis*, Thomson, 2005

- 11) Multinational Capital Budgeting and the valuation of M&A targets

Buckley, Adrian (1998): *International Investment – Value Creation and Appraisal: A*

real options approach, Chapter 6, 9, Copenhagen: Handelshøjskolens Forlag, Copenhagen Business School Press.

Damodaran, Aswath (2003) – Country Risk and Company Exposure: Theory and Practise, *Journal of Applied Finance*, Vol. 13 (2); pp. 63-76.

- 12) Taxation and repositioning of funds (including comparative tax systems, deferral principle, transfer pricing)

Eden, Lorraine, Luis F Valdez, and Dan Li (2005) – Talk softly but carry a big stick: transfer pricing penalties and the market valuation of Japanese multinationals in the United States, *Journal of International Business Studies*, Vol. 36(4); pp. 398-414.

DeMooij, Ruud A. and Sjef Ederveen (2003) – Taxation and foreign direct investment: a synthesis of empirical research, *International Tax and Public Finance*, Vol. 10, pp. 673-693.