This course applies principles of finance to the international setting. International finance is different in two basic respects. First, the existence of multiple currencies adds risk to investment and financing decisions. Second, when corporations and portfolio investors cross international borders both problems and opportunities arise. We will focus on these issues and highlight how finance theory can be extended to address them. We will start with basic principles of international finance, then apply those principles to several problems. The course will help you to understand the ideas and research results of international finance and to adapt what you learn to the practical problems of the business world beyond the classroom.

The first part of the class outlines two basic themes, exchange rate volatility and barriers to international capital flows. The second part of the class presents a variety of problems, examples, and applications from the two basic themes. These will range from corporate finance applications of capital budgeting to portfolio management strategies.

This subject has few clear-cut answers or cookbook solutions. Students should be prepared to confront ambiguity, apply independent thinking, and juggle conflicting concepts and solutions in approaching the course material, lecture style, group project and presentation, and exams.

Course Materials:

Course Packet (required)

Alan C. Shapiro, Foundations of Multinational Financial Management, Wiley, Fourth Edition 2002 [or Fifth Edition 2005; other editions are similar], (extremely optional; not ordered to book store)

Other materials to be distributed online or in class

List of Topics and Readings (approximate lecture number on calendar):

I. Introduction to International Finance

   Shapiro, Chapter 1 [Chapter 1]

II. The level and volatility of exchange rates

   A. Background: the gold standard, fixed exchange rates

   Shapiro, Chapter 3, pages 68 to 77 [Chapter 3, pages 70 to 81]

   B. Basics of Exchange Rate Determination, Real Exchange Rates
C. Evidence, Implications, and Problems

Pakko/Pollard, For Here or to Go: PPP and the Big Mac, FRB St. Louis Review. January/February 1996. (4)


III. Barriers to International Capital Flows

A. The nature of barriers: prohibitions, restrictions, regulations


B. International Asset Pricing Models

C. Evidence: does the cost of capital differ across countries?

IV. The Value of International Diversification

Shapiro, Chapter 15 [Chapter 15]


V. Currency Futures and Options

Shapiro, Chapter 7 [Chapter 8]

VI. Capital Budgeting in the International Setting

A. Motivation: motivation for investing overseas, strategies for creating value, relation to basic corporate finance principles

Shapiro, Chapter 16 [Chapter 16]

B. Basics of International Capital Budgeting

Shapiro, Chapter 17, pages 477 to 487 [Chapter 17, pages 455 to 465]
C. Complexities

**Discount rate:** Shapiro, Chapter 14, pages 400 to 412 [Chapter 14, pages 379 to 391]

**Political risk:** Shapiro, Chapter 17, pages 496 to 498, Chapter 5 [Chapter 17, pages 473 to 476, Chapter 6]

**Real product and production options:** Shapiro, Chapter 17, pages 498 to 502 [Chapter 17, pages 476 to 479]

D. Practitioner viewpoints


VII. Hedging Corporate Economic Exposure to Exchange Rates

Shapiro, Chapter 11 [Chapter 11]


Office Hours:

Ordinarily, I am available often on an "open door" basis. If you are having difficulty finding me, please email or call. Furthermore, fixed office hours may be used at busy times of the semester.

Homework Exercises:

Several spreadsheet exercises are based on data stored in Excel files. They are intended to enhance and reinforce the lectures and strengthen your computing and data analysis skills.

1. Each student is required to upload a complete electronic copy of his or her work on each such assignment to the course website on [http://www.blackboard.cornell.edu](http://www.blackboard.cornell.edu).

2. Each homework file must be named with course number, assignment identifier, family name in capital letters, and given name. For example, “NBA5540_Mexico_NIXON_Richard.xlsx” is the filename for the solution to spreadsheet “Mexico” for a student whose given name is “Richard” and whose family name is “Nixon”. “Mexico” is the name for the assignment as
indicated on the last page of this course description. When uploading, remember to go all the way to the “submitted” stage, not just the “posted” stage.

3. The upload consists of the complete Excel file only. No zipped files, pdf files, WORD files, or other formats will be accepted. Any writing should be included within your Excel file.

4. Homework must be uploaded prior to the start of the class when they will be discussed. This means that any homework which the blackboard system time-stamps as received at or after the start of class will not receive any credit.

5. I will not accept or acknowledge any spreadsheet assignment emailed to me directly.

6. Each student is responsible for ensuring that he or she is properly enrolled in the Blackboard system and for understanding how to upload files.

7. Full credit will be earned for attempting a complete, careful solution to each problem, even if the details are not perfect.

8. No credit will be earned for any assignment that does not meet the above requirements.

Exams:

Exams are closed book and consist of computational, short answer, and short essay questions. The following rules and procedures govern the examinations:

1. The first exam occurs in the 13th class session, as indicated on the calendar below.
2. Copies of several old first exams are included in the course packet.
3. Graded first exams will be returned and discussed in class.
4. The second exam occurs in the 26th class session, as indicated on the calendar below.
5. Copies of old second exams are not supplied.
6. Graded second exams will not be returned but can be viewed at my office at the end of the semester.
7. There will be no specially scheduled exams, make-up exams, or other special exam arrangements under any circumstances except when mandated by Johnson School or University rules.
8. If you miss the first exam, I will double the weight on your second exam. This is risky and, therefore, it is not recommended that you miss the first exam. There will be no accommodation if you miss the second exam.

Group Project:

Students will form groups to complete, submit, and present a course project. You must belong to a group in the section you are registered for. Each group will submit a provisional hardcopy of the paper (that is, your detailed slide show) and deliver an in-class presentation on either the 27th class session or the 28th class session as I will subsequently assign. The failure to deliver a hard copy paper and give a presentation as assigned will lead to zero points for this part of the class. Each group may also submit a hardcopy of a revision of the detailed slide show (based on comments made during the presentation) up
to noon on at my office one week after the 28th class session. Attendance and participation in both days of presentations is mandatory and forms part of each student’s grade. Peer evaluation by your group members may form a part of each student’s grade on the project as well. A handout detailing requirements, grading, and other aspects of the group project will be supplied.

Professional Behavior:

Disruptions to the learning environment in class will judged by the instructor, and final grades will be adjusted accordingly. Disruptive activities include but are not limited to: the use of laptop computers, tablet computers, smart phones, and cell phones for activities unrelated to what is currently going on in the class; ringing phones; private conversations that do not cease when class begins; private conversations initiated once class is underway. Cheating and other violations of academic integrity will be addressed in the final letter grade and with formal administrative proceedings as mandated by Johnson School and other Cornell regulations. Name cards should be brought to every class and displayed.

Final Letter Grades:

A rough guide to how final grades will be determined is as follows: first exam 30%, group project 30%, second exam 30%, and homework 10%. The instructor reserves the right to determine the final letter grade assigned to each student. There is no pass/fail grading option or auditing option for this class.

GPA in Electives:

Grades in Johnson School elective courses are expected to average around 3.5. There will be some variation, of course, and some small courses may be significantly different.

Warnings:

This class is intended for Johnson School students and also admits limited numbers of graduate students from other business and economics programs. All questions or requests regarding course enrollment must be directed to the Johnson School registrar’s office. I do not monitor or participate in the registration process in any way. **I do not sign add or drop slips.**

If you register for this class, you agree to accept all course requirements, deadlines, exam dates, and other procedures outlined in this syllabus, in the group project description handout, and in class discussions. There will be no discussions, pleas, or arguments about the administration of the course under any circumstances.

All students must adhere strictly to the Johnson School Honor Code and other university rules and regulations regarding academic integrity.

Note that course materials (those posted on Blackboard, those contained in the course packet, and those distributed in class including exams, exam solutions, and spreadsheet solutions) are intellectual property. Students are not permitted to buy or sell any course materials. Any such behavior is unauthorized and constitutes academic misconduct.
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