

### Undergraduate Distance Education Review Form

(Required for all courses taught by distance education for more than one-third of teaching contact hours.)

#### Existing and Special Topics Course

**Course:** FIN 424 International Financial Management

**Instructor(s) of Record:** Ibrahim J. Affaneh, Ph.D. and Robert Boldin, Ph.D.

**Phone:** 724-357-4818 or 724-357-2465

**Email:** affaneh@iup.edu or rboldin@iup.edu

#### Step One: Proposers

A. Provide a brief narrative rationale for each of the items, A1- A5.

1. How is/are the instructor(s) qualified in the distance education delivery method as well as the discipline?  
(see attached completed Undergraduate Distance Education Review Questionnaire)
2. How will each objective in the course be met using distance education technologies?  
(see attached completed Undergraduate Distance Education Review Questionnaire)
3. How will instructor-student and student-student, if applicable, interaction take place?  
(see attached completed Undergraduate Distance Education Review Questionnaire)
4. How will student achievement be evaluated?  
(see attached completed Undergraduate Distance Education Review Questionnaire)
5. How will academic honesty for tests and assignments be addressed?  
(see attached completed Undergraduate Distance Education Review Questionnaire)

B. Submit to the department or its curriculum committee the responses to items A1-A5, the current official syllabus of record, along with the instructor developed online version of the syllabus, and the sample lesson. This lesson should clearly demonstrate how the distance education instructional format adequately assists students to meet a course objective(s) using online or distance technology. It should relate to one concrete topic area indicated on the syllabus.

#### Step Two: Departmental/Dean Approval

Recommendation:  Positive (The objectives of this course can be met via distance education)

Negative

Robert Boldin  
Signature of Department Designee

3/2/10  
Date

Endorsed:

[Signature]  
Signature of College Dean

3/2/10  
Date

**Received**

MAR 2 2010

**Liberal Studies**

Forward form and supporting materials to Liberal Studies Office for consideration by the University-wide Undergraduate Curriculum Committee. Dual-level courses also require review by the University-wide Graduate Committee for graduate-level section.

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**Step Three: University-wide Undergraduate Curriculum Committee Approval**

Recommendation:  Positive (The objectives of this course can be met via distance education)

Negative

*U.WKCC approved provisionally 4-1-10 the correct requested materials did not arrive until 9-29-10.*

*Gail Sechrest*  
\_\_\_\_\_  
Signature of Committee Co-Chair

*9-29-10*  
\_\_\_\_\_  
Date

Forward form and supporting materials to the Provost within 30 calendar days after received by committee.

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**Step Four: Provost Approval**

Approved as distance education course

Rejected as distance education course

*[Signature]*  
\_\_\_\_\_  
Signature of Provost

*11/10*  
\_\_\_\_\_  
Date

Forward form and supporting materials to Associate Provost.

## **Undergraduate Distance Education Review Questionnaire**

### **FIN 424 International Financial Management**

#### **Step One: Proposer (Provide a brief narrative rationale for items A1 – A5)**

**A1 How is/are the instructor(s) qualified in the distance education delivery method as well as the discipline?**

#### **Qualifications for Distance Education Delivery Method**

**Ibrahim Affaneh, Ph.D.**

**Has attended Moodle training programs and has co-developed FIN 424/524 International Financial Management on Moodle in preparation for online delivery of the course (see FIN 424/524 International Financial Management Moodle course attached.)**

**Robert Boldin, Ph.D.**

**Has attended numerous Moodle training programs and has co-developed FIN 424/524 International Financial Management on Moodle in preparation for online delivery of the course (see FIN 424/524 International Financial Management Moodle course attached.)**

**Has used Moodle distance education delivery for FIN 310 Fundamentals of Finance (8 semesters). Moodle will be the new platform for this course.**

**Has used Moodle distance education delivery for FIN 324 Principles of Investments (2 semesters). Moodle will be the new platform for this course.**

**Helped to develop an online FIN 320 Corporate Finance. Moodle will be the new platform for this course.**

**Has used Moodle as a supportive component of FIN 422 Seminar in Finance and FIN 630 Financial Management**

#### **Qualifications for the Discipline (FIN 424 International Financial Management)**

**Ibrahim Affaneh, Ph.D.**  
Professor of Finance

Ph.D, University of Utah

Has taught FIN 424 524 International Financial Management in a classroom setting for at least 20 semesters.

**Robert Boldin, Ph.D.**  
Professor of Finance

Ph.D., University of Pennsylvania

Has taught FIN 630 Financial Management in a classroom setting for at least 20 semesters.

### **Relevant Publications for Robert Boldin and Ibrahim Affaneh**

**Affaneh, A., Albohali, M., and Boldin, R. J. (2009).** Portfolio Construction Based on Higher Moments, *International Journal of Business, Accounting , and Finance*.

**Boldin, R., Chaudhry, M. and Palacios, L. (2008).** Use of Coskewness and Cokurtosis in Determining ADR Risk. *Forthcoming*

**Boldin, R., Chaudhry, M. and Palacios, L. (2008).** Are ADRs Different from US Stocks? An Analysis of Idiosyncratic Risks, *Journal of Money, Investment and Banking*.

**Boldin, R. and Arsov, S. (2007).** Large Banks of Macedonia: A Comparative Analysis. *Journal of the Institute of Economics, St. Cyril and Methodius University*.

**Alvares, B., Boldin, R. J., and Chaudhry, M. (2007).** Mutual Equity Fund Portfolios: Risk Reduction Through Global Diversification. *Journal of International Finance and Economics, Book of Abstracts*.

**Boldin, R., Chaudhry, M. and Palacios, L. (2007).** Are ADRs Different from US Stocks? An Analysis of Idiosyncratic Risks. *Journal of International Money and Finance, Book of Abstracts*.

**Affaneh, I. Maheshwari, S., and Chaudhry, M. (2007).** The Integration of Oil Futures Contracts with other Commodities. *DIAS Technology Review, The International Journal for Business, Vol. 3, No. 2, 2006/2007*.

**Ghosh, A., and Boldin, R. J. (2006).** Long-Tern Equilibrium Relationship between the Prime Rate and the S&P 500 Index. *Advances in Investment Analysis and Portfolio Management (AIAPM)*.

**A2 How will each objective in the course be met using distance education technologies?**

**Objective 1)** It is expected that upon successful completion of the course, students will be enabled to measure the risk generated by the volatility of exchange rates. This objective will be met by students through (a) an understanding of Chapters 4, 13, and 14, (b) accessing outside internet information sources related to international financial management, such as, <http://www.aafm.org> – The International Academy of Financial Management, one of the world's fastest growing professional associations with more than 200,000 members, associates and affiliates in 145 countries, and (c) by successful completion of an Assignment and Discussion related to exploring the field of international financial management, as in the following:

**Impact of Economy on Exchange Rates.** Assume that inflation is zero in the U.S. and in Europe and will remain at zero. U.S. interest rates are presently the same as in Europe. Assume that the economic growth for the U.S. is presently similar to Europe. Assume that international capital flows are much larger than international trade flows. Today, there is news that clearly signals economic conditions in Europe will be weakening in the future, while economic conditions in the U.S. will remain the same. Explain why and how (which direction) the euro's value would change today based on this information.

**ANSWER:** Expectations of weak economic conditions result in a reduced demand for loanable funds within Europe, which should reduce interest rates in the future. Thus, there will a reduction in U.S. demand for euros because of lower interest rates there. The supply of euros to be exchanged for dollars should increase as European investors attempt to benefit from relatively high U.S. interest rates.

In addition, at the end of the chapter there are suggested exercises and ideas for researching the world wide web on international financial management topics.

**Objective 2)** It is expected that upon successful completion of the course, students will be enabled to understand the use of the appropriate hedging technique to reduce a company's exposure from the exchange rate risk. This objective will be met by students through (a) an understanding of **Chapters 3, 5, 7, 8, 10, 14, 17**, (b) accessing outside internet information sources related to international financial management, such as, [www.citeulike.org/journal/bpl-jifm](http://www.citeulike.org/journal/bpl-jifm) – The Journal of International Financial Management and Accounting, and (c) by successful completion of an Assignment and Discussion related to international financial management as in the following:

**Assessing Translation Exposure.** Kanab Co. and Zion Co. are U.S. companies that engage in much business within the U.S. and are about the same size. They both conduct some international business as well.

Kanab Co. has a subsidiary in Canada that will generate earnings of about C\$20 million in each of the next 5 years. Kanab Co. also has a U.S. business that will also receive about C\$1 million (after costs) in each of the next 5 years as a result of exporting products to Canada that are denominated in Canadian dollars.

Zion Company has a subsidiary in Mexico that will generate earnings of about 1 million pesos in each of the next 5 years. Zion Co. also has a business in the U.S. that will receive about 300 million pesos (after costs) in each of the next 5 years as a result of exporting products to Mexico that are denominated in Mexican pesos.

The salvage value of Kanab's Canadian subsidiary and Zion's Mexican subsidiary will be zero in 5 years. The spot rate of the Canadian dollar is \$.60 while the spot rate of the Mexican peso is \$.10. Assume the Canadian dollar could appreciate or depreciate against the U.S. dollar by about 8% in any given year, while the Mexican peso could appreciate or depreciate against the U.S. dollar by about 12% in any given year. Which company is subject to a higher degree of translation exposure? Explain.

**ANSWER:** Kanab Co. has C\$20,000,000 that is subject to translation exposure, as these are the subsidiary earnings. Its cash flows from exporting are not subject to translation exposure.

Zion Co. has 1,000,000 pesos that is subject to translation exposure, as these are the subsidiary earnings. Its cash flows from exporting are not subject to translation exposure.

The estimated dollar value of Kanab's translated earnings is  $C\$20,000,000 \times .60 = \$12,000,000$ . The estimated dollar value of Zion's translated earnings is  $1,000,000 \text{ pesos} \times .10 = \$100,000$ . Since both companies are the same size, Kanab Co. has a much higher proportion of its business that is subject to translation exposure. While the peso is more volatile than the Canadian dollar, the potential adverse effect due to translation exposure is much larger for Kanab.

In addition, at the end of the chapter there are suggested exercises and ideas for researching the world wide web on international financial management topics.

**Objective 3)** It is expected that upon successful completion of the course, students will be enabled to identify the relevant international variables that affect international financial decisions whether an investment decision or financing decision. This objective will be met by students through (a) an understanding of **Chapters 1, 2, 4, 5, 8, 10, 14, and 17**, (b) accessing outside internet information sources related to international financial management, such as, The Financial Management Association International (FMA) – <http://www.fma.org>, and (c) by successful completion of an Assignment and Discussion related to exploring the field of the international flow of funds, as in the following example:

**Exchange Rate Effect on Trade Balance.** Would the U.S. balance of trade deficit be larger or smaller if the dollar depreciates against all currencies, versus depreciating against some currencies but appreciated against others? Explain.

**BRIEF EXAMPLE ANSWER:** If the dollar weakens against all currencies, the U.S. balance of trade deficit will likely be smaller. Some U.S. importers would have more seriously considered purchasing their goods in the U.S. if most or all currencies simultaneously strengthened against the dollar. Conversely, if some currencies weaken against the dollar, the U.S. importers may have simply shifted their importing from one foreign country to another.

In addition, at the end of the chapter there are suggested exercises and ideas for researching the world wide web on international financial management topics.

**Objective 4)** It is expected that upon successful completion of the course, students will be enabled to convert currencies and calculate the cross rate for any one currency against other currencies using the different quoting systems. This objective will be met by students through (a) an understanding of **Chapters 8, 11, 12, and 16**, (b) accessing outside internet information sources related to international financial management, such as, <http://www.imf.org> – The International Monetary Fund (IMF), and (c) by successful completion of an Assignment and Discussion, such as:

**IFE Applied to the Euro.** Given the recent conversion of several European currencies to the euro, explain what would cause the euro's value to change against the dollar according to the IFE.

**ANSWER:** If interest rates change in these European countries whose home currency is the euro, the expected inflation rate in those countries change, so that the inflation differential between those countries and the U.S. changes. Thus, there may be an impact on the value of the euro, because a change in the inflation differential affects trade flows and therefore affects the exchange rate.

In addition, at the end of the chapter there are suggested exercises and ideas for researching the world wide web on international financial management topics.

**Objective 5)** It is expected that upon successful completion of the course, students will be enabled to identify the different international sources of funds and the nature of the instruments available in the international capital and money markets. This objective will be met by students through (a) an understanding of **Chapters 3, 11, and 16**, (b) accessing outside internet information sources related to international financial management, such as, <http://www.imf.org> – The International Monetary Fund (IMF), and (c) by successful completion of an Assignment and Discussion, such as:

**Political Risk and Currency Derivative Values.** Assume that interest rate parity exists. At 10:30 a.m., the media reported news that the Mexican government political problems were reduced, which reduced the expected volatility of the Mexican peso against the dollar over the next month. However, this news had no effect on the prevailing one-month interest rates of the U.S. dollar or Mexican peso, and also had no effect on the expected exchange rate of the Mexican peso in one month. The spot rate of the Mexican peso was \$.13 as of 10 a.m. and remained at that level all morning.

a. At 10 a.m., Piazza Co. purchased a call option at the money on 1 million Mexican pesos with a December expiration date. At 11:00 a.m., Corradetti Co. purchased a call option at the money on 1 million pesos with a December expiration date. Did Corradetti Co. pay more, less, or the same as Piazza Co. for the options? Briefly explain.

b. Teke Co. purchased futures contracts on 1 million Mexican pesos with a December settlement date at 10 a.m. Malone Co. purchased futures contracts on 1 million Mexican pesos with a December settlement date at 11 a.m. Did Teke Co. pay more, less, or the same as Malone Co. for the futures contracts. Briefly explain.

**ANSWER:**

a. Corradetti Co. paid less than Piazza, because the expected volatility of the call option declined by the time that Corradetti purchased options.

b. The same. The spot rate did not change. The interest rate differential did not change. So based on IRP, the premium of the forward rate did not change.

In addition, at the end of the chapter there are suggested exercises and ideas for researching the world wide web on international financial management topics.



**A3 How will instructor-student and student-student, if applicable, interaction take place?**

Case Analysis Assignments and Group Case Analysis Assignments with Interactive Discussions (Threaded Discussions and Chat Rooms)

A variety of topics will be assigned and discussed during the semester. These interactive discussions are where students have their greatest opportunity to demonstrate their involvement and professionalism. There will be ten case analysis assignments/interactive discussions with each case analysis assignment/interactive discussion being worth 2 percent of the overall course grade. All case analysis assignments and interactive discussions will be initiated by the instructor.

**Two of the case analysis assignments will be Group Case Analysis Assignments.** The groups of approximately 3 – 4 students will be selected by the instructor. All case analysis assignments and interactive discussions will be initiated by the instructor.

Typically, the length of a completed case analysis assignment is to be approximately two pages along with appendix materials.

Students earn grades on Data Case Analysis Assignments/Interactive Discussions by (1) submitting a completed case analysis assignment by the deadline provided and by (2) discussing or commenting upon other course members' submissions during the case analysis assignment period or within 24 hours after the case analysis assignment submission deadline.

The ten case assignments are worth a total of 20 percent of student's overall grade.

All case analysis assignments and interactive discussions will be initiated by the instructors.

The instructors will provide feedback to each student regarding each student's case analysis assignment submission and each student's contribution to the interactive discussion phase.

*Page 7 removed  
objective  
not in syllabus  
of record*

#### **A4 How will student achievement be evaluated?**

The final grade for the course will be determined as follows:

Examinations (3 exams at 100 points each)	300 points
Online participation [10 Case Analysis Assignments (including 2 Group Case Assignments) at 10 points each with Interactive Discussions]	100 points
	Total 400 points

The final grading scale for the course is, total points earned divided by 4 (for example, maximum of 400 points divided by 4 = 100 points):

The grading scale for the course is:

90	-	100	A
80	-	89	B
70	-	79	C
60	-	69	D
0	-	59	F

#### **Examinations**

There will be three 100-point objective examinations during the semester, each covering approximately one third of the chapters in the book. A standardized test bank will be used for the majority of questions. Make-up exams will be given only for extreme conditions and may be administered during the week at the end of the semester.

Exams will be administered during an approximate 30-hour window, beginning at 6:00 p.m. one day and ending at approximately 11:55 p.m. the following day.

#### **Assignments/Interactive Discussions**

There will be ten case analysis assignments/interactive discussions with each case analysis assignment/interactive discussion being worth 10 points. **Two of the case analysis assignments will be Group Case Analysis Assignments.** The groups of approximately 3 – 4 students will be selected by the instructor. All case analysis assignments and interactive discussions will be initiated by the instructor.

## **A5 How will academic honesty for tests and assignments be addressed?**

### **Examinations**

There will be three 100-point objective examinations during the semester, each covering approximately one third of the chapters in the book. A standardized test bank will be used for the majority of questions. Placement of the questions will randomly vary based upon the Moodle Test tool. Also, questions pertaining to specific assignments and Interactive Discussions submitted by students will be included in the test.

Exams will be administered during an approximate 30-hour window, beginning at 6:00 p.m. one day and ending at approximately 11:55 p.m. the following day. Students will be allocated two and one-half hours (approximately 150 minutes) to complete 100 questions. In addition, the physical layout of the exam is white lettering on a black background, thus decreasing the likelihood that a student, completing an exam at the beginning of the examination period, will print a copy of the test and provide it to a fellow classmate.

### **Case Analysis Assignments, Group Case Analysis Assignments, Interactive Discussions and Case Analysis – Term Paper (Culminating Activity)**

The instructor will review the content and writing style of students with respect to the Case Analysis Assignments and Interactive Discussions, to determine writing style consistency throughout the semester. In addition, the instructor will provide feedback to the students with specific questions related to their case analysis assignments submissions and interactive discussion.

### Course Outline FIN 424 International Financial Management

Topic	Chapter	No. of Weeks	Course Learning Objectives and Outcomes
Multinational Financial Management: An Overview	Chapter 1	1	3
International Flow of Funds	Chapter 2, Assignment #1	1	3
International Financial Markets	Chapter 3, Assignment #2	1	2, 5, 6
Exchange Rate Determination	Chapter 4, Assignment #3	1	1, 2, 3
Currency Derivatives and International Arbitrage and Interest Rate Parity	Ch. 5,7 Assignment #4 <b>(Group)</b>	1	2, 3
Relationships among Inflation, Interest Rates and Exchange Rates	Chapter 8, Assignment #5	1	2, 3,4
<b>Exam 1</b>	<b>Chapters 1,2,3,4,5,7,8</b>		<b>1, 2, 3, 4, 5, 6</b>
Measuring Exposure to Exchange Rate Fluctuations	Chapter 10, Assignment #6	1	2, 3, 6
Managing Transaction Exposure	Chapter 11, Assignment #7	1	4, 5
Managing Economic Exposure and Translation Exposure	Chapter 12, Assignment #8 <b>(Group)</b>	1	3, 4
Direct Foreign Investment	Chapter 13, Assignment #9	1	1, 3
<b>Exam 2</b>	<b>Chapters 10, 11, 12, 13</b>		<b>1, 2, 3, 4, 5, 6</b>
Multinational Capital Budgeting	Chapter 14, Assignment #10	1	1, 2, 3
Multinational Cost of Capital and Capital Structure	Chapter 17	1	2, 3
Country Risk Analysis	Chapter 16	2	4, 5, 6
<b>Exam 3 (Culminating Activity)</b>	<b>Chapters 14, 16, 17</b>		<b>1, 2, 3, 4, 5, 6</b>

**Eberly College of Business & Information Technology**  
**Department of Finance and Legal Studies**  
**FIN 424 - International Financial Management**  
**(Distance Education)**  
**Fall 2010**

<b>Instructors:</b>	Ibrahim J. Affaneh, Ph.D.	Robert J. Boldin, Ph.D.
<b>Office:</b>	324 Eberly College of Business & Information Technology	322-A Eberly College of Business & Information Technology
<b>Telephone:</b>	724-357-4818	724-357-2465
<b>E-mail:</b>	affaneh@iup.edu	rboldin@iup.edu
<b>Office Hours:</b>	Tuesday: 2:00 – 4:00 p.m. Wednesday: Noon – 2:00 p.m. Thursday: 2:15 – 3:15 p.m.  Other times by Appointment	Monday: 11:00 a.m. – Noon 1:30 – 2:30 p.m. Tuesday: 2:00 – 3:00 p.m. Wednesday: 11:00 a.m. – Noon 1:30 – 2:30 p.m.

**IMPORTANT**

**This is a distance education section. Since your contact with the instructor is limited to mostly electronic communication, there is a need to pay particular attention to the procedures established in this syllabus. Please read this syllabus in detail as soon as possible and communicate any questions to the instructor in a timely fashion. Common student errors include: improper timing of exams, not submitting assignments/discussions by the due date, not staying current of communications from the instructor, and not developing a routine for regular involvement. Please note procedures related to these issues are addressed in this syllabus.**

**To access the Web course:**

- Go to <https://www.moodle.iup.edu>
- Your Moodle username, as well as your password is the same as your IUP Login name and initial password.

## **I. CATALOG COURSE DESCRIPTION**

The Financial Management Concepts, useful in a single-county context, are adapted for the international variables and constraints caused by being international. The course provides an insight into unique issues and problems the manager of the multinational enterprise will face, such as working capital management; capital budgeting process; financing and investing abroad; capital and money markets; foreign exchange markets and risk management.

Prerequisites: FIN 310

There will be absolute enforcement of every prerequisite requirement for the coursework offered by the Eberly College of Business & Information Technology. This means that students cannot postpone prerequisites and take them after the course in question.

The Dean's Office of the Eberly College of Business & Information Technology is responsible for monitoring course prerequisites. Students who manage to register for coursework even though they do not have the appropriate prerequisites, will be subject to unilateral withdrawal after the course has commenced. At that time, no appeal will be accepted and adding a different class after the official registration period will not be approved.

The university individual course withdrawal deadline date of **Wednesday, November 3, 2010**, will be enforced. A request for a deadline waiver must be sought through the Assistant Dean for Academic Services in Eberly Room 208. Requests will only be granted: 1) "contingent upon documentation of catastrophic circumstances" as stated in the IUP Undergraduate Catalog; and/or 2) through written feedback from the instructor noting advisement to the student to postpone withdrawing pending an additional test or assignment.

## **II. COURSE OUTCOMES / LEARNING OBJECTIVES:**

At the completion of this course, students will be able to:

1. Measure the risk generated by the volatility of the exchange rates.
2. Use the appropriate hedging technique to reduce the company's exposure from the exchange rate risk.
3. Identify the relevant international variables that affect the international financial decisions whether an investment decision or financing decision.
4. To convert currencies and calculate the cross rate for any one currency against other currencies using the different quoting systems.
5. Identify the different international sources of funds and the nature of the instruments available in the international capital and money markets.
6. Assess the correlation among the global financial market and their impact on the international diversification of the company's portfolio.

### **III. COURSE OUTLINE:**

#### **1. Chapter 1: Multinational Financial Management: An Overview (1 week) (Course Learning Objective 3)**

Multinational Corporations are firms that engage in some form of international business. After reading and studying this chapter, the student should be able to:

1. Identify the management goal and organizational structure of the Multinational Corporation (MNC).
2. Describe the key theories that justify international business.
3. Explain the common methods used to conduct international business.
4. Provide a model for valuing the MNC.

#### **2. Chapter 2: International Flow of Funds (1 week) (Course Learning Objective 3)**

Balance of payments is a summary of transactions between domestic and foreign residents for a specific country over a specified period of time. After reading and studying this chapter, the student should be able to:

1. Explain the key components of the balance of payment.
2. Explain how international trade flows are influenced by economic factors and other factors.
3. Explain how international capital flows are influenced by country characteristics.

#### **3. Chapter 3: International Financial Markets (1 week) (Course Learning Objectives 2, 5, 6)**

The foreign exchange market allows for the exchange of one currency for another. After reading and studying this chapter, the student should be able to:

1. Explain the Foreign exchange market.
2. Describe the International money market.
3. Explain the International credit market.
4. Describe the International bond market.
5. Describe International stock markets.

#### **4. Chapter 4: Exchange Rate Determination (1 week) (Course Learning Objectives 1, 2, 3)**

The exchange rate represents the price of a currency, or the rate at which one currency can be exchanged for another. After reading and studying this chapter, the student should be able to:

1. Explain how exchange rate movements are measured.
2. Explain how the equilibrium exchange rate is determined.
3. Examine and describe factors that determine the equilibrium exchange rate.
4. Explain the movement in cross exchange rates.

**5. Chapter 5: Currency Derivatives (0.5 week) (Course Learning Objectives 2, 3)**

A currency derivative is a contract whose price is derived from the value of an underlying currency. After reading and studying this chapter, the student should be able to:

1. Identify the management goal and organizational structure of the Multinational Corporation (MNC).
2. Describe the key theories that justify international business.
3. Explain the common methods used to conduct international business.
4. Provide a model for valuing the MNC.

**6. Chapter 7: International Arbitrage and Interest Rate Parity (0.5 week) (Course Learning Objectives 2, 3)**

International arbitrage is defined as capitalizing on a discrepancy in quoted prices by making a riskless profit. After reading and studying this chapter, the student should be able to:

1. Explain the conditions that will result in various forms of international arbitrage and the realignments that will occur in response.
2. Explain the concept of interest rate parity.

**7. Chapter 8: Relationships among Inflation, Interest Rates and Exchange Rates (1 week) (Course Learning Objectives 2, 3, 4)**

The absolute form of purchasing power parity will exist when, without international barriers, consumers shift their demand to wherever prices are lower. Prices of the same basket of products in two different countries should be equal when measured in common currency. After reading and studying this chapter, the student should be able to:

1. Explain the purchasing power parity (PPP) theory and its implications for exchange rate changes.
2. Explain the International Fisher effect (IFE) theory and its implications for exchange rate changes.
3. Compare the PPP theory, the IFE theory, and the theory of interest rate parity (IRP), which was introduced in Chapter 7.

**8. Chapter 10: Measuring Exposure to Exchange Rate Fluctuations (1 week) (Course Learning Objectives 2, 3, 6)**

There are three forms of exchange rate exposure; they are: transaction exposure, economic exposure, and translation exposure. After reading and studying this chapter, the student should be able to:

1. Discuss the relevance of an MNC's exposure to exchange rate risk.
2. Explain how transaction exposure can be measured.
3. Explain how economic exposure can be measured.
4. Explain how translation exposure can be measured.



**9. Chapter 11: Managing Transaction Exposure (1 week)  
(Course Learning Objectives 4, 5)**

Multinational corporations must identify the degree of transaction exposure. A multinational corporation must consider the various techniques to hedge the exposure so that it can decide which hedging technique is optimal and whether to hedge its transaction exposure. After reading and studying this chapter, the student should be able to:

1. Compare the commonly used techniques to hedge payables.
2. Compare the common used techniques to hedge receivables.
3. Explain how to hedge long-term transaction exposure.
4. Suggest other methods of reducing exchange rate risk when hedging techniques are not available.

**10. Chapter 12: Managing Economic Exposure and Translation Exposure (1 week)  
(Course Learning Objectives 3, 4)**

Translation exposure occurs when a multinational corporation translates each subsidiary's financial data to its home currency for consolidated financial statements. After reading and studying this chapter, the student should be able to:

1. Explain how an MNC's economic exposure can be hedged.
2. Explain how an MNC's translation exposure can be hedged.

**11. Chapter 13: Direct Foreign Investment (1 week) (Course Learning Objectives 1, 3)**

Motives for direct foreign investment include revenue related motives and cost related motives. After reading and studying this chapter, the student should be able to:

1. Describe common motives for initiating foreign direct investment.
2. Illustrate the benefits of international diversification.

**12. Chapter 14: Multinational Capital Budgeting (1 week)  
(Course Learning Objectives 1, 2, 3)**

The input for multinational capital budget includes: (1) initial investment, (2) price and consumer demand, (3) costs, (4) tax laws, (5) remitted funds, (6) exchange rates, (7) salvage values, and (8) required rate of return. After reading and studying this chapter, the student should be able to:

1. Compare the capital budgeting analysis of an MNC's subsidiary versus its parent.
2. Demonstrate how multinational capital building can be applied to determine whether an international project should be implemented.
3. Explain how the risk of international projects can be assessed.

**13. Chapter 17: Multinational Cost of Capital and Capital Structure (1week)  
(Course Learning Objectives 2, 3)**

The cost of capital for multinational corporations may differ because of: (1) size of the firm, (2) access to international capital markets, (3) international diversification, (4) exposure to exchange rate risk, and (5) exposure to country risk. After reading and studying this chapter, the student should be able to:

1. Explain why the cost of capital of MNC's differs from that of domestic firms.
2. Explain why there are differences in the costs of capital among countries.
3. Explain how to account for the cost of capital when assessing new international projects.
4. Explain how corporate and country characteristics are considered by an MNC when it establishes its capital structure.
5. Explain the interaction between subsidiary and parent financing decisions.

**14. Chapter 16: Country Risk Analysis (2 weeks) (Course Learning Objectives 4, 5, 6)**

Country risk is the potentially adverse impact of a country's environment on a multinational corporation's cash flows. Country risk analysis can be used to monitor countries where the multinational corporation is currently doing business. After reading and studying this chapter, the student should be able to:

1. Identify the common factors used by MNCs to measure country risk.
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**IV. EVALUATION METHODS**

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## **VII. BIBLIOGRAPHY**

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Clark, Ephraim, Levasseur, Michelle and Patrick Rousseau, International Finance, (1<sup>st</sup> edition) New York: Chapman and Hall, 1993.

Eiteman, David K., Stonehill, Arthur I., and Michael H. Moffett, Multinational Business Finance, (12<sup>th</sup> edition), Upper Saddle River, NJ: Pearson Prentice-Hall, Inc., 2010. ISBN-10: 0136096689

Kim, Taeho, International Money and Banking London: Routledge, 1995.

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Multinational Financial Journal; School of Business Rutgers University; Camden, NJ, A Publication of Multinational Finance Society.

### Course Outline FIN 424 International Financial Management

Topic	Chapter	No. of Weeks	Course Learning Objectives and Outcomes
Multinational Financial Management: An Overview	Chapter 1	1	3
International Flow of Funds	Chapter 2, Assignment #1	1	3
International Financial Markets	Chapter 3, Assignment #2	1	2, 5, 6
Exchange Rate Determination	Chapter 4, Assignment #3	1	1, 2, 3
Currency Derivatives and International Arbitrage and Interest Rate Parity	Ch. 5,7 Assignment #4 <b>(Group)</b>	1	2, 3
Relationships among Inflation, Interest Rates and Exchange Rates	Chapter 8, Assignment #5	1	2, 3,4
<b>Exam 1</b>	<b>Chapters 1,2,3,4,5,7,8</b>		<b>1, 2, 3, 4, 5, 6</b>
Measuring Exposure to Exchange Rate Fluctuations	Chapter 10, Assignment #6	1	2, 3, 6
Managing Transaction Exposure	Chapter 11, Assignment #7	1	4, 5
Managing Economic Exposure and Translation Exposure	Chapter 12, Assignment #8 <b>(Group)</b>	1	3, 4
Direct Foreign Investment	Chapter 13, Assignment #9	1	1, 3
<b>Exam 2</b>	<b>Chapters 10, 11, 12, 13</b>		<b>1, 2, 3, 4, 5, 6</b>
Multinational Capital Budgeting	Chapter 14, Assignment #10	1	1, 2, 3
Multinational Cost of Capital and Capital Structure	Chapter 17	1	2, 3
Country Risk Analysis	Chapter 16	2	4, 5, 6
<b>Exam 3 (Culminating Activity)</b>	<b>Chapters 14, 16, 17</b>		<b>1, 2, 3, 4, 5, 6</b>

**FIN 424 – 801 International Financial Management**  
 Fall Semester 2010 – Tentative Course Schedule as of 1-31-10

<u>Date or Week of:</u>	<u>Topic</u>	<u>Assignment</u>
8/30	Multinational Financial Management: An Overview	Chapter 1
9/7	International Flow of Funds <b>Assignment #1/Discussion (Chapters 1 – 2)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/7 and ends at 11:55 p.m. (E.D.T.) Friday, 9/10</b>	Chapter 2
9/13	International Financial Markets <b>Assignment #2/Discussion (Chapter 3)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/14 and ends at 11:55 p.m. (E.D.T.) Friday, 9/17</b>	Chapter 3
9/20	Exchange Rate Determination <b>Assignment #3/Discussion (Chapter 4)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/21 and ends at 11:55 p.m. (E.D.T.) Friday, 9/24</b>	Chapter 4
9/27	Currency Derivatives International Arbitrage and Interest Rate Parity <b>Assignment #4/Discussion (Chapter 5)</b> <b>(Group Assignment)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/28 and ends at 11:55 p.m. (E.D.T.) Friday, 10/1</b>	Chapter 5 Chapter 7
10/4	Relationships among Inflation, Interest Rates and Exchange Rates <b>Assignment #5/Discussion (Chapter 8)</b> <b>starts at Noon (E.D.T.) Tuesday, 10/5 and ends at 11:55 p.m. (E.D.T.) Friday, 10/8</b>	Chapter 8
Oct. 7 – 8	<b>Exam 1 (Chapters 1,2,3,4,5,7 and 8) becomes available at Noon (E.D.T.), Thursday, 10-7-10 and ends on Friday, 10-8-10, at 11:55 p.m. (E.D.T.)</b>	
10/11	Measuring Exposure to Exchange Rate Fluctuations <b>Assignment #6/Discussion (Chapter 10)</b> <b>starts at Noon (E.D.T.) Tuesday, 10/12 and ends at 11:55 p.m. (E.D.T.) Friday, 10/15</b>	Chapter 10

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<u>Date or Week of:</u>	<u>Topic</u>	<u>Assignment</u>
10/18	Managing Transaction Exposure <b>Assignment #7/Discussion (Chapter 11)</b> starts at Noon (E.D.T.) Tuesday, 10/19 and ends at 11:55 p.m. (E.D.T.) Friday, 10/22	Chapter 11
10/25	Managing Economic Exposure and Translation Exposure <b>Assignment #8/Discussion (Chapter 12)</b> <b>(Group Assignment)</b> starts at Noon (E.D.T.) Tuesday, 10/26 and ends at 11:55 p.m. (E.D.T.) Friday, 10/29	Chapter 12
11/1	Direct Foreign Investment <b>Assignment #9/Discussion (Chapter 13)</b> starts at Noon (E.D.T.) Tuesday, 11/2 and ends at 11:55 p.m. (E.D.T.) Friday, 11/3	Chapter 13
11/8	Prepare for Test 3 Chapters 10 – 13	Chapter 13
Nov. 11 – 12	<b>Exam 2 (Chapters 10 – 13) becomes available at Noon (E.S.T.), Thursday, 11-11-10 and ends on Friday, 11-12-10, at 11:55 p.m. (E.S.T.)</b>	
11/15	Multinational Capital Budgeting <b>Assignment #10/Discussion (Chapter 14)</b> starts at Noon (E.S.T.) Tuesday, 11/16 and ends at 11:55 p.m. (E.S.T.) Friday, 11/19	Chapter 14
11/22 - 11/26	<b>Thanksgiving Recess</b>	
11/29	Multinational Cost of Capital and Capital Structure	Chapter 17
12/6	Country Risk Analysis	Chapter 16
Dec. 16 – 17	<b>Exam 3 (Chapters 14, 16, 17) becomes available at Noon (E.S.T.) on Thursday, 12-16-10, and ends on Friday, 12-17-10, at 11:55 p.m. (E.S.T.)</b>	
<b>Fall Semester grades available on <u><a href="http://www.iup.edu/ursa">www.iup.edu/ursa</a></u> after 8:00 a.m. Monday, Dec. 29</b>		



**Eberly College of Business & Information Technology**  
**Department of Finance and Legal Studies**  
**FIN 424 - International Financial Management**  
**Fall 2010**

<b>Instructors:</b>	Ibrahim J. Affaneh, Ph.D.	Robert J. Boldin, Ph.D.
<b>Office:</b>	324 Eberly College of Business & Information Technology	322-A Eberly College of Business & Information Technology
<b>Telephone:</b>	724-357-4818	724-357-2465
<b>E-mail:</b>	affaneh@iup.edu	Robert.Boldin@iup.edu
<b>Office Hours:</b>	Tuesday: 2:00 – 4:00 p.m. Wednesday: Noon – 2:00 p.m. Thursday: 2:15 – 3:15 p.m.  Other times by Appointment	Monday: 11:00 a.m. – Noon 1:30 – 2:30 p.m. Tuesday: 2:00 – 3:00 p.m. Wednesday: 11:00 a.m. – Noon 1:30 – 2:30 p.m.

**IMPORTANT**

**This is a distance education section. Since your contact with the instructor is limited to mostly electronic communication, there is a need to pay particular attention to the procedures established in this syllabus. Please read this syllabus in detail as soon as possible and communicate any questions to the instructor in a timely fashion. Common student errors include: improper timing of exams, not submitting assignments/discussions by the due date, not staying current of communications from the instructor, and not developing a routine for regular involvement. Please note procedures related to these issues are addressed in this syllabus.**

**To access the Web course:**

- Go to <https://www.moodle.iup.edu>
- Your Moodle username, as well as your password is the same as your IUP Login name and initial password.

## **I. CATALOG COURSE DESCRIPTION**

The Financial Management Concepts, useful in a single-county context, are adapted for the international variables and constraints caused by being international. The course provides an insight into unique issues and problems the manager of the multinational enterprise will face, such as working capital management; capital budgeting process; financing and investing abroad; capital and money markets; foreign exchange markets and risk management.

Prerequisites: FIN 310

There will be absolute enforcement of every prerequisite requirement for the coursework offered by the Eberly College of Business & Information Technology. This means that students cannot postpone prerequisites and take them after the course in question.

The Dean's Office of the Eberly College of Business & Information Technology is responsible for monitoring course prerequisites. Students who manage to register for coursework even though they do not have the appropriate prerequisites, will be subject to unilateral withdrawal after the course has commenced. At that time, no appeal will be accepted and adding a different class after the official registration period will not be approved.

The university individual course withdrawal deadline date of **Wednesday, November 3, 2010**, will be enforced. A request for a deadline waiver must be sought through the Assistant Dean for Academic Services in Eberly Room 208. Requests will only be granted: 1) "contingent upon documentation of catastrophic circumstances" as stated in the IUP Undergraduate Catalog; and/or 2) through written feedback from the instructor noting advisement to the student to postpone withdrawing pending an additional test or assignment.

## **II. COURSE OUTCOMES / LEARNING OBJECTIVES:**

At the completion of this course, students will be able to:

1. Measure the risk generated by the volatility of the exchange rates.
2. Use the appropriate risk management technique to reduce the company's exposure from the exchange rate risk.
3. Identify the relevant international variables that affect the international financial decisions whether an investment decision or financing decision.
4. To convert currencies and calculate the cross rate for any one currency against other currencies using the different quoting systems.
5. Identify the different international sources of funds and the nature of the instruments available in the international capital and money markets.

### **III. COURSE OUTLINE:**

#### **1. Chapter 1: Multinational Financial Management: An Overview (1 week) (Course Learning Objective 3)**

Multinational Corporations are firms that engage in some form of international business. After reading and studying this chapter, the student should be able to:

1. Identify the management goal and organizational structure of the Multinational Corporation (MNC).
2. Describe the key theories that justify international business.
3. Explain the common methods used to conduct international business.
4. Provide a model for valuing the MNC.

#### **2. Chapter 2: International Flow of Funds (1 week) (Course Learning Objective 3)**

Balance of payments is a summary of transactions between domestic and foreign residents for a specific country over a specified period of time. After reading and studying this chapter, the student should be able to:

1. Explain the key components of the balance of payment.
2. Explain how international trade flows are influenced by economic factors and other factors.
3. Explain how international capital flows are influenced by country characteristics.

#### **3. Chapter 3: International Financial Markets (1 week) (Course Learning Objectives 2, 5)**

The foreign exchange market allows for the exchange of one currency for another. After reading and studying this chapter, the student should be able to:

1. Explain the Foreign exchange market.
2. Describe the International money market.
3. Explain the International credit market.
4. Describe the International bond market.
5. Describe International stock markets.

#### **4. Chapter 4: Exchange Rate Determination (1 week) (Course Learning Objectives 1, 2, 3)**

The exchange rate represents the price of a currency, or the rate at which one currency can be exchanged for another. After reading and studying this chapter, the student should be able to:

1. Explain how exchange rate movements are measured.
2. Explain how the equilibrium exchange rate is determined.
3. Examine and describe factors that determine the equilibrium exchange rate.
4. Explain the movement in cross exchange rates.

**5. Chapter 5: Currency Derivatives (0.5 week) (Course Learning Objectives 2, 3)**

A currency derivative is a contract whose price is derived from the value of an underlying currency. After reading and studying this chapter, the student should be able to:

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**6. Chapter 7: International Arbitrage and Interest Rate Parity (0.5 week) (Course Learning Objectives 2, 3)**

International arbitrage is defined as capitalizing on a discrepancy in quoted prices by making a riskless profit. After reading and studying this chapter, the student should be able to:

1. Explain the conditions that will result in various forms of international arbitrage and the realignments that will occur in response.
2. Explain the concept of interest rate parity.

**7. Chapter 8: Relationships among Inflation, Interest Rates and Exchange Rates (1 week) (Course Learning Objectives 2, 3, 4)**

The absolute form of purchasing power parity will exist when, without international barriers, consumers shift their demand to wherever prices are lower. Prices of the same basket of products in two different countries should be equal when measured in common currency. After reading and studying this chapter, the student should be able to:

1. Explain the purchasing power parity (PPP) theory and its implications for exchange rate changes.
2. Explain the International Fisher effect (IFE) theory and its implications for exchange rate changes.
3. Compare the PPP theory, the IFE theory, and the theory of interest rate parity (IRP), which was introduced in Chapter 7.

**8. Chapter 10: Measuring Exposure to Exchange Rate Fluctuations (1 week) (Course Learning Objectives 2, 3)**

There are three forms of exchange rate exposure; they are: transaction exposure, economic exposure, and translation exposure. After reading and studying this chapter, the student should be able to:

1. Discuss the relevance of an MNC's exposure to exchange rate risk.
2. Explain how transaction exposure can be measured.
3. Explain how economic exposure can be measured.
4. Explain how translation exposure can be measured.

**9. Chapter 11: Managing Transaction Exposure (1 week)**  
**(Course Learning Objectives 4, 5)**

Multinational corporations must identify the degree of transaction exposure. A multinational corporation must consider the various techniques to hedge the exposure so that it can decide which hedging technique is optimal and whether to hedge its transaction exposure. After reading and studying this chapter, the student should be able to:

1. Compare the commonly used techniques to hedge payables.
2. Compare the common used techniques to hedge receivables.
3. Explain how to hedge long-term transaction exposure.
4. Suggest other methods of reducing exchange rate risk when hedging techniques are not available.

**10. Chapter 12: Managing Economic Exposure and Translation Exposure (1 week)**  
**(Course Learning Objectives 3, 4)**

Translation exposure occurs when a multinational corporation translates each subsidiary's financial data to its home currency for consolidated financial statements. After reading and studying this chapter, the student should be able to:

1. Explain how an MNC's economic exposure can be hedged.
2. Explain how an MNC's translation exposure can be hedged.

**11. Chapter 13: Direct Foreign Investment (1 week) (Course Learning Objectives 1, 3)**

Motives for direct foreign investment include revenue related motives and cost related motives. After reading and studying this chapter, the student should be able to:

1. Describe common motives for initiating foreign direct investment.
2. Illustrate the benefits of international diversification.

**12. Chapter 14: Multinational Capital Budgeting (1 week)**  
**(Course Learning Objectives 1, 2, 3)**

The input for multinational capital budget includes: (1) initial investment, (2) price and consumer demand, (3) costs, (4) tax laws, (5) remitted funds, (6) exchange rates, (7) salvage values, and (8) required rate of return. After reading and studying this chapter, the student should be able to:

1. Compare the capital budgeting analysis of an MNC's subsidiary versus its parent.
2. Demonstrate how multinational capital building can be applied to determine whether an international project should be implemented.
3. Explain how the risk of international projects can be assessed.

**13. Chapter 17: Multinational Cost of Capital and Capital Structure (1week)  
(Course Learning Objectives 2, 3)**

The cost of capital for multinational corporations may differ because of: (1) size of the firm, (2) access to international capital markets, (3) international diversification, (4) exposure to exchange rate risk, and (5) exposure to country risk. After reading and studying this chapter, the student should be able to:

1. Explain why the cost of capital of MNC's differs from that of domestic firms.
2. Explain why there are differences in the costs of capital among countries.
3. Explain how to account for the cost of capital when assessing new international projects.
4. Explain how corporate and country characteristics are considered by an MNC when it establishes its capital structure.
5. Explain the interaction between subsidiary and parent financing decisions.

**14. Chapter 16: Country Risk Analysis (2 weeks) (Course Learning Objectives 4, 5)**

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Computer hardware and software needed for analysis will be provided through the PC lab. **IUP has instituted a communication policy regarding email. The policy reads in part: Indiana University of Pennsylvania provides email services to all students and employees as an official method of communication. Students have a responsibility to read their IUP email accounts, and, if responding to or sending email about IUP business, use their IUP email accounts to do so. The policy can be viewed in its entirety at: <http://www.iup.edu/techzone/email/iupuseofemailpolicy.pdf>**

## **VII. BIBLIOGRAPHY**

Bekaert, Geert and Robert J. Hodrick, International Financial Management, Upper Saddle River, NJ: Pearson Prentice-Hall, Inc., 2009. ISBN-10: 0131163604

Butler, Kirt C., Multinational Finance, Cincinnati, Ohio: South-Western College Publishing, 1997.

Clark, Ephraim, Levasseur, Michelle and Patrick Rousseau, International Finance, (1<sup>st</sup> edition) New York: Chapman and Hall, 1993.

Eiteman, David K., Stonehill, Arthur I., and Michael H. Moffett, Multinational Business Finance, (12<sup>th</sup> edition), Upper Saddle River, NJ: Pearson Prentice-Hall, Inc., 2010. ISBN-10: 0136096689

Kim, Taeho, International Money and Banking London: Routledge, 1995.

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Multinational Financial Journal; School of Business Rutgers University; Camden, NJ, A Publication of Multinational Finance Society.

### Course Outline FIN 424 International Financial Management

Topic	Chapter	No. of Weeks	Course Learning Objectives and Outcomes
Multinational Financial Management: An Overview	Chapter 1	1	3
International Flow of Funds	Chapter 2, Assignment #1	1	3
International Financial Markets	Chapter 3, Assignment #2	1	2, 5
Exchange Rate Determination	Chapter 4, Assignment #3	1	1, 2, 3
Currency Derivatives and International Arbitrage and Interest Rate Parity	Ch. 5,7 Assignment #4 <b>(Group)</b>	1	2, 3
Relationships among Inflation, Interest Rates and Exchange Rates	Chapter 8, Assignment #5	1	2, 3,4
<b>Exam 1</b>	<b>Chapters 1,2,3,4,5,7,8</b>		<b>1, 2, 3, 4, 5</b>
Measuring Exposure to Exchange Rate Fluctuations	Chapter 10, Assignment #6	1	2, 3
Managing Transaction Exposure	Chapter 11, Assignment #7	1	4, 5
Managing Economic Exposure and Translation Exposure	Chapter 12, Assignment #8 <b>(Group)</b>	1	3, 4
Direct Foreign Investment	Chapter 13, Assignment #9	1	1, 3
<b>Exam 2</b>	<b>Chapters 10, 11, 12, 13</b>		<b>1, 2, 3, 4, 5</b>
Multinational Capital Budgeting	Chapter 14, Assignment #10	1	1, 2, 3
Multinational Cost of Capital and Capital Structure	Chapter 17	1	2, 3
Country Risk Analysis	Chapter 16	2	4, 5
<b>Exam 3 (Culminating Activity)</b>	<b>Chapters 14, 16, 17</b>		<b>1, 2, 3, 4, 5</b>

**FIN 424 – 801 International Financial Management**  
 Fall Semester 2010 – Tentative Course Schedule as of 1-24-10

<u>Date or Week of:</u>	<u>Topic</u>	<u>Assignment</u>
8/30	Multinational Financial Management: An Overview	Chapter 1
9/7	International Flow of Funds <b>Assignment #1/Discussion (Chapters 1 – 2)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/7 and ends at 11:55 p.m. (E.D.T.) Friday, 9/10</b>	Chapter 2
9/13	International Financial Markets <b>Assignment #2/Discussion (Chapter 3)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/14 and ends at 11:55 p.m. (E.D.T.) Friday, 9/17</b>	Chapter 3
9/20	Exchange Rate Determination <b>Assignment #3/Discussion (Chapter 4)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/21 and ends at 11:55 p.m. (E.D.T.) Friday, 9/24</b>	Chapter 4
9/27	Currency Derivatives International Arbitrage and Interest Rate Parity <b>Assignment #4/Discussion (Chapter 5)</b> <b>(Group Assignment)</b> <b>starts at Noon (E.D.T.) Tuesday, 9/28 and ends at 11:55 p.m. (E.D.T.) Friday, 10/1</b>	Chapter 5 Chapter 7
10/4	Relationships among Inflation, Interest Rates and Exchange Rates <b>Assignment #5/Discussion (Chapter 8)</b> <b>starts at Noon (E.D.T.) Tuesday, 10/5 and ends at 11:55 p.m. (E.D.T.) Friday, 10/8</b>	Chapter 8
Oct. 7 – 8	<b>Exam 1 (Chapters 1,2,3,4,5,7 and 8) becomes available at Noon (E.D.T.), Thursday, 10-7-10 and ends on Friday, 10-8-10, at 11:55 p.m. (E.D.T.)</b>	
10/11	Measuring Exposure to Exchange Rate Fluctuations <b>Assignment #6/Discussion (Chapter 10)</b> <b>starts at Noon (E.D.T.) Tuesday, 10/12 and ends at 11:55 p.m. (E.D.T.) Friday, 10/15</b>	Chapter 10

**FIN 424 – 801 International Financial Management**  
 Fall Semester 2010 – Tentative Course Schedule as of 1-24-10

<u>Date or Week of:</u>	<u>Topic</u>	<u>Assignment</u>
10/18	Managing Transaction Exposure <b>Assignment #7/Discussion (Chapter 11)</b> starts at Noon (E.D.T.) Tuesday, 10/19 and ends at 11:55 p.m. (E.D.T.) Friday, 10/22	Chapter 11
10/25	Managing Economic Exposure and Translation Exposure <b>Assignment #8/Discussion (Chapter 12)</b> <b>(Group Assignment)</b> starts at Noon (E.D.T.) Tuesday, 10/26 and ends at 11:55 p.m. (E.D.T.) Friday, 10/29	Chapter 12
11/1	Direct Foreign Investment <b>Assignment #9/Discussion (Chapter 13)</b> starts at Noon (E.D.T.) Tuesday, 11/2 and ends at 11:55 p.m. (E.D.T.) Friday, 11/3	Chapter 13
11/8	Prepare for Test 3 Chapters 10 – 13	Chapter 13
Nov. 11 – 12	<b>Exam 2 (Chapters 10 – 13) becomes available at Noon (E.D.T.), Thursday, 11-11-10 and ends on Friday, 11-12-10, at 11:55 p.m. (E.D.T.)</b>	
11/15	Multinational Capital Budgeting <b>Assignment #10/Discussion (Chapter 14)</b> starts at Noon (E.D.T.) Tuesday, 11/16 and ends at 11:55 p.m. (E.D.T.) Friday, 11/19	Chapter 14
11/22 - 11/26	<b>Thanksgiving Recess</b>	
11/29	Multinational Cost of Capital and Capital Structure	Chapter 17
12/6	Country Risk Analysis	Chapter 16
Dec. 16 – 17	<b>Exam 3 (Chapters 14, 16, 17) becomes available at Noon (E.S.T.) on Thursday, 12-16-10, and ends on Friday, 12-17-10, at 11:55 p.m. (E.S.T.)</b>	
<b>Fall Semester grades available on <u><a href="http://www.iup.edu/ursa">www.iup.edu/ursa</a></u> after 8:00 a.m. Monday, Dec. 29</b>		

## **FIN 424 International Financial Management (distance education) Lesson Plan**

### **Chapter 2 International Flow of Funds – Week 2 (3 academic hours)**

**Course Objective 3:** For students to be enabled to identify the relevant international variables that affect international financial decisions whether an investment decision or financing decision.

**List of Chapter Learning Objectives – Student Learning Outcomes:** For students to be able to:

1. Explain the key components of the balance of payment.
2. Explain how international trade flows are influenced by economic factors and other factors.
3. Explain how international capital flows are influenced by country characteristics.

**Distance Education** will be utilized in this chapter to meet the following course objective: It is expected that upon successful completion of the course, students will be enabled to identify the various stages of the international flow of funds and to identify the relevant international variables that affect international financial decisions whether an investment decision or financing decision . This objective will be met by students through (a) an understanding of Chapter 2, (b) accessing outside internet information sources related to international financial management, such as, **The Financial Management Association International (FMA) – <http://www.fma.org>**, and (c) by successful completion of an **Assignment and Discussion** related to exploring the field of the international flow of funds, as in the following example:

**Assignment and Discussion (example): Exchange Rate Effect on Trade Balance.** Would the U.S. balance of trade deficit be larger or smaller if the dollar depreciates against all currencies, versus depreciating against some currencies but appreciated against others? Explain.

**BRIEF EXAMPLE ANSWER:** If the dollar weakens against all currencies, the U.S. balance of trade deficit will likely be smaller. Some U.S. importers would have more seriously considered purchasing their goods in the U.S. if most or all currencies simultaneously strengthened against the dollar. Conversely, if some currencies weaken against the dollar, the U.S. importers may have simply shifted their importing from one foreign country to another.

## Chapter 2 Summary and Lesson Plan Topics

### International Flow of Funds – Week 2 (3 academic hours) The Balance of Payments

**Balance of Payments Defined.** The measurement of all international economic transactions between the residents of a country and foreign residents is called the balance of payments (BOP). What institution provides the primary source of similar statistics for balance of payments and economic performance worldwide?

The primary source of similar statistics for balance of payments and economic performance worldwide is the International Monetary Fund, *Balance of Payments Statistics*.

**Importance of BOP.** Business managers and investors need BOP data to anticipate changes in host country economic policies that might be driven by BOP events. From the perspective of business managers and investors list three specific signals that a country's BOP data can provide.

- The BOP is an important indicator of pressure on a country's foreign exchange rate, and thus on the potential for a firm trading with or investing in that country to experience foreign exchange gains or losses. Changes in the BOP may predict the imposition or removal of foreign exchange controls.
- Changes in a country's BOP may signal the imposition or removal of controls over payment of dividends and interest, license fees, royalty fees, or other cash disbursements to foreign firms or investors.
- The BOP helps to forecast a country's market potential, especially in the short run. A country experiencing a serious trade deficit is not likely to expand imports as it would if running a surplus. It may, however, welcome investments that increase its exports.

**Economic Activity.** What are the two main types of economic activity measured by a country's BOP?

- a. Current transactions having cash flows completed within one year, such as for the import or export of goods and services.
- b. Capital and financial transactions, in which investors acquire ownership of a foreign asset, such as a company, or a portfolio investment, such as bonds or shares of common stock.

**Balance.** Why does the BOP always "balance?"

The algebraic sum of all flows accounted for in the current account and the capital and financial accounts should, in theory, equal changes in a country's monetary reserves. Because data for the balance of payments is collected on a single entry basis and some data is missed, the equalization usually does not occur. The imbalance is plugged by an entry called "errors and omissions" which makes the accounts balance.

**BOP Accounting.** If the BOP were viewed as an accounting statement, would it be a balance sheet of the country's wealth, an income statement of the country's earnings, or a funds flow statement of money into and out of the country?

A country's balance of payments is similar to a corporation's funds statement in that the balance of payments records events that cause the receipt (earnings) and disbursement (expenditures) of foreign exchange.

**Current Account.** What are the main component accounts of the current account? Give one debit and one credit example for each component account for the United States.

The main components and possible examples are:

*Trade in goods.*

Debit: U.S. firm purchases German machine tools.

Credit: Singapore Airlines buys a Boeing jet.

*Trade in services.*

Debit: An American takes a cruise on a Dutch cruise line.

Credit: The Brazilian tourist agency places an ad in *The New York Times*.

*Income payments and receipts.*

Debit: The U.S. subsidiary of a Taiwan computer manufacturer pays dividends to its parent.

Credit: A British company pays the salary of its executive stationed in New York.

*Unilateral current transactions.*

Debit: The U.S.-based International Rescue Committee pays for an American working on the Afghan border.

Credit: A Spanish company pays tuition for an employee to study for an MBA in the United States.

**Real versus Financial Assets.** What is the difference between a "real" asset and a "financial" asset?

Real assets are goods (merchandise) and useful services. Financial assets are financial claims, such as shares of stock or bonds.

**Direct versus Portfolio Investments.** What is the difference between a direct foreign investment and a portfolio foreign investment? Give an example of each. Which type of investment is a multinational industrial company more likely to make?

A direct investment is made with the intent that the investor will have a degree of control over the asset acquired. Typical examples are the building of a factory in a foreign country by the subsidiary of a multinational enterprise or the acquisition of more than 10% of the voting shares of a foreign corporation. A portfolio investment is the purchase of less than 10% of the voting shares of a foreign corporation or the purchase of debt instruments. Multinational enterprises are more likely to engage in direct foreign investment than in portfolio investment.

**Capital and Financial Accounts.** What are the main components of the financial accounts? Give one debit and one credit example for each component account for the United States.

The main components and possible examples are:

*Direct investment.*

Debit: Ford Motor Company builds a factory in Australia.

Credit: Ford Motor Company sells its factory in Britain to British investors.

*Portfolio investment.*

Debit: An American buys shares of stock of a European food chain on the Frankfurt Stock Exchange.

Credit: The government of Korea buys United States treasury bills to hold as part of its foreign exchange reserves.

*Other investment.*

Debit: A U.S. firm deposits \$1 million in a bank balance in London.

Credit: A U.S. firm generates an account receivable for exports to Canada.

**Classifying Transactions.** Classify the following as a transaction reported in a subcomponent of the current account or the capital and financial accounts of the two countries involved:

- a. A U.S. food chain imports wine from Chile. Debit to U.S. goods part of current account, credit to Chilean goods part of current account.
- b. A U.S. resident purchases a euro-denominated bond from a German company. Debit to U.S. portfolio part of financial account; credit to German portfolio of financial account.
- c. Singaporean parents pay for their daughter to study at a U.S. university. Credit to U.S. current transfers in current account; debit to Singapore current transfers in current account.
- d. A U.S. university gives a tuition grant to a foreign student from Singapore. If the student is already in the United States, no entry will appear in the balance of payments because payment is between U.S. residents. (A student already in the United States becomes a resident for balance of payments purposes.)
- e. A British company imports Spanish oranges, paying with Eurodollars on deposit in London. A debit to the goods part of Britain's current account; a credit to the goods part of Spain's current account.



- f. The Spanish orchard deposits half the proceeds of its sale in a New York bank. A debit to the income receipts/payments part of Spain's current account; a credit to the income receipts/payments part of the U.S. current account.
- g. The Spanish orchard deposits half the proceeds in a Eurodollar account in London. No recording in the U.S. balance of payments, as the transaction was between foreigners using dollars already deposited abroad. A debit to the income receipts/payments of the British current account; a credit to the income receipts/payments of the Spanish current account.
- h. A London-based insurance company buys U.S. corporate bonds for its investment portfolio. A debit to the portfolio investment section of the British financial accounts; a credit to the portfolio investment section of the U.S. balance of payments.
- i. An American multinational enterprise buys insurance from a London insurance broker. A debit to the services part of the U.S. current account; a credit to the services part of the British current account.
- j. A London insurance firm pays for losses incurred in the United States because of an international terrorist attack. A debit to the services part of the British current account; a credit to the services part of the U.S. current account.
- k. Cathay Pacific Airlines buys jet fuel at Los Angeles International Airport so it can fly the return segment of a flight segment back to Hong Kong. Hong Kong keeps its balance of payments separate from those of the People's Republic of China. Hence a debit to the goods part of Hong Kong's current account; a credit to the goods part of the U.S. current account.
- l. A California-based mutual fund buys shares of stock on the Tokyo and London stock exchanges. A debit to the portfolio investment section of the U.S. financial account; a credit to the portfolio investment section of the Japanese and British financial accounts.
- m. The U.S. army buys food for its troops in South Asia from vendors in Thailand. A debit to the goods part of the U.S. current account; a credit to the goods part of the Thai current account.
- n. A Yale graduate gets a job with the International Committee of the Red Cross working in Bosnia and is paid in Swiss francs. A debit to the income part of the Swiss current account; a credit to the income part of the Bosnia current account. This assumes the Yale graduate spends her earnings within Bosnia; should she deposit the sum in the United States then the credit would be to the income part of the U.S. current account.
- o. The Russian government hires a Dutch salvage firm to raise a sunken submarine. A debit to the service part of Russia's current account; a credit to the service part of the Netherlands's current account.

- p. A Colombian drug cartel smuggles cocaine into the United States, receives a suitcase of cash, and flies back to Colombia with that cash. This would not get captured in the goods part of the U.S. or the Colombian current accounts. Assuming the cash was “laundered” appropriately, from the point of view of the smugglers, bank accounts in the United States or somewhere else (probably not Colombia, possibly Switzerland) would be credited. This imbalance would end up in the errors and omissions part of the U.S. balance of payments.
- q. The U.S. government pays the salary of a Foreign Service officer working in the U.S. embassy in Beirut. Diplomats serving in a foreign country are regarded as residents of their home country, so this payment would not be recorded in any balance of payments accounts. If or when the diplomat spent the money in Beirut, at that time a debit should be incurred in the goods or services part of the U.S. current account and a contrary entry in the Lebanon balance of payments. It is doubtful that the goods or services transaction would get reported or recorded, although on a net basis changes in bank balances would reflect half of the transaction.
- r. A Norwegian shipping firm pays U.S. dollars to the Egyptian government for passage of a ship through the Suez Canal. If the Norwegian firm paid with dollar balances held in the United States and the Suez Canal Authority of Egypt redeposited the proceeds in the United States no entry would appear in the U.S. balance of payments. Norway would debit a purchase of services, and Egypt would credit a sale of services.
- s. A German automobile firm pays the salary of its business executive working for a subsidiary in Detroit. Germany would record a debit in the income payments/receipts in its current account; the United States would record a credit in the income payments/receipts in its current account
- t. An American tourist pays for a hotel in Paris with his American Express card. A debit would be recorded in the services part of the U.S. current account; a credit would be recorded in the services part of the French current account.
- u. A French tourist from the provinces pays for a hotel in Paris with his American Express card.  
A French resident most likely has a French-issued credit card, issued by the French subsidiary of American Express. In this instance, no entry would appear in either country’s balance of payments. If, later, the French subsidiary of American Express paid a dividend back to the United States, that would be recorded in the income part of the current accounts.
- v. A U.S. professor goes abroad for a year and lives on a Fulbright grant. The current transfers section of the U.S. current account would be debited for the salary paid to a foreign resident. (Even though an American, the professor is a foreign resident during the time he lives abroad.) The current transfers section of the host country’s current account would be credited.

**The Balance.** What are the main summary statements of the balance of payments accounts and what do they measure?

- a. The *balance on goods* (also called the *balance of trade*) measures the balance on imports and exports of merchandise.
- b. The *balance on current account* expands the balance on goods to include receipts and expenses for services, income flows, and unilateral transfers.
- c. The *basic balance* measures all of the international transactions (current, capital, and financial) that come about because of market forces. That is, the balance resulting from all decisions made for private motives. (This includes international operating expenses of the government.)
- d. The *overall balance* (also called the *official settlements balance*) is the total change in a country's foreign exchange reserves caused by the basic balance plus any governmental action to influence foreign exchange reserves.

**Drugs and Terrorists.** Where in the balance of payments accounts do the flows of "laundered" money by drug dealers and international terrorist organizations flow?

Quite obviously the merchandise involved in the import or export of marijuana, heroin, cocaine, or other drugs is not reported to customs officials and so does not appear in the goods section of the current account. For similar reasons, the cash payments used to finance terrorists are not reported in the current transfers section of the current account.

The opposite side to any of these transactions is changes in bank balances held by foreigners or foreign bank balances held by home country residents. These are usually reported, but only in the aggregate. That is, the total changes in holdings are reported by banks, but the parties to the millions and millions of individual transactions that lead to the total change are not reported. The imbalance shows up in the errors and omissions part of the balance of payments.

**Capital Mobility—United States.** The U.S. dollar has maintained or increased its value over the past 20 years despite running a gradually increasing current account deficit. Why has this phenomenon occurred?

The U.S. dollar has maintained or increased its value over the past 20 years despite running a gradually increasing current account deficit because the current account deficit has been more than offset by an inflow of dollars on capital and financial accounts.

**Capital Mobility—Brazil.** Brazil has experienced periodic depreciation of its currency over the past 20 years despite occasionally running a current account surplus. Why has this phenomenon occurred?

Brazil has experienced periodic depreciation of its currency because of speculative flights of capital out of Brazil in response to political and/or economic shocks, including periods of hyperinflation.

**BOP Transactions.** Identify the correct BOP account for each of the following transactions.

- a. German based pension fund buys U.S. government 30 year bonds for its investment portfolio. Financial account: portfolio investment liabilities.
- b. Scandinavian Airlines System (SAS) buys jet fuel at Newark Airport for its flight to Copenhagen. Current account: Goods: Exports FOB.
- c. Hong Kong students pay tuition to the University of California, Berkeley. Current account: Services: credit.
- c. A Japanese auto company pays the salaries of its executives working for its U.S. subsidiaries. Current account: Services: credit.
- d. A U.S. tourist pays for a restaurant meal in Bangkok. Current account: Services: debit.

**Reading Assignments:**

Read Chapter 2 “International Flow of Funds” from the text.

Review posted Power Point presentations supporting textbook readings.

Read related articles from the Wall Street Journal (Students will have access to the online version).

**Video presentation:** of the key topics of the chapter.

**Outcomes Assessment:**

Chat Room: Teams of students will be assigned to different chat rooms to discuss the current issues relating to international flow of funds. Questions will be posted to help direct the discussion and their responses monitored for content and participation.

Practice Quizzes (On-line) – The questions and problems will be selected so as to coincide with each of the learning objectives. Once the deadline for submission of the tests has passed, the solutions will be posted so that the students can see where their mistakes occurred and points lost.

**Assignment/Discussion** as described in the example provided on page 1 of this Lesson Plan.

**Example of internet resources:**

<http://www.fma.org> – The **Financial Management Association International (FMA)** is the global leader in developing and disseminating knowledge about financial decision making. FMA's members include academicians and practitioners worldwide. FMA serves the global finance community by:

- Promoting the development and understanding of high quality basic and applied research and of sound financial practices.
- Facilitating interaction and relationships among those who share a common interest in finance.
- Encouraging and supporting quality financial education.
- Sponsoring annual finance conferences that provide a chance to get together with colleagues, present current research and receive feedback, observe the presentations of others, and visit interesting places.

<http://www.aafm.org> – The **International Academy of Financial Management** (previously known as the American Academy of Financial Management) is one of the world's fastest growing professional associations with more than 200,000 members, associates and affiliates in 145 countries. IAFM™ hosts and organizes certification training worldwide and offers exclusive board designations to candidates who meet the highest professional standards and assessment criteria.

In the last three years alone IAFM™ has been chosen by the Internal Revenue Service, Greek Ministry of Finance, Chinese Government, Capital Markets Authority of Saudi Arabia, Dubai Stock Exchange (Dubai Financial Market), Singapore Government, Qatar Financial Centre, Central Bank of Oman and others to provide training to their employees. IAFM™ is also formally recognized or registered with regulators worldwide.

[www.citeulike.org/journal/bpl-jifm](http://www.citeulike.org/journal/bpl-jifm) – **The Journal of International Financial Management and Accounting**

<http://www.imf.org> – The **International Monetary Fund (IMF)** is an organization of 186 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

**APPENDIX D**

**GRADUATE CURRICULUM AUTHORIZATION FORM**

(Check only one)

- New Program
- Major Program Revision
- Minor Program Revision
- Dual-Level and Cross-Listing Courses
- New Course
- Major Course Revision
- Deletions
- Minor Course Revision
- Variability in Program Delivery
- Program Reactivation

**TITLE OF PROPOSAL:** FI424/FI524

**DEPARTMENT:** Finance and Legal Studies

**PERSON:** Dr. Ibrahim J. Affaneh

**APPROVALS:**

	<b>Academic Integrity</b>	<b>Resource Implications*</b>	<b>Date</b>
Department Committee Chair	<u>Karim Duhela</u>	_____	<u>4/17/00</u>
Department Chair	<u>Ibrahim Affaneh</u>	_____	<u>4/17/00</u>
TECC Chair:	_____	_____	_____
College Committee Chair	<u>Brown</u> <small>Provost B.N.</small>	_____	<u>4/17/00</u>
College Dean	<u>R. Cory</u>	_____	<u>4/17/00</u>
Graduate Dean	<u>James Patten</u>	_____	<u>4/19/00</u>
Provost	_____	_____	_____
Graduate Committee Chair	_____	_____	_____

Comments: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\*To sign off on resource implications, confirms that detailed justification of resource sufficiency has been made.

GRADUATE CURRICULUM PROPOSAL TRACKING FORM

To: David Chambers and Anne Kondo Date: 01/02/01

After completing your review, signing and forwarding to the next reviewer, please return this form to the proposer:

Ibrahim Affaneh

Proposer Name

Finance and Legal Studies

Proposer Department

7-4096 - affaneh@grove.iup.edu

Phone/E-mail

Ibrahim Affaneh  
Signed

01/02/01

Date

Finance and Legal Studies  
Department/Office

## Catalog Description

FIN424/524 International Financial Management

3 credits

3 lecture hours

0 lab hours

(3c-01-3sh)

Prerequisite: FIN310\* - Finance I or Equivalent

(\*FIN310 is a prerequisite for all graduate finance courses such as FIN630)

The course provides an insight into the unique issues and problems that the manager of the multinational enterprise will face such as: working capital management; capital budgeting process; financing and investing abroad; capital and money markets; foreign exchange markets; and risk management.



**COURSE SYLLABUS**  
**FI424/FI524: International Financial Management**  
**Revised 01/02/01**

*Catalog Description*

FIN424 International Financial Management

3 credits  
3 lecture hours  
0 lab hours  
(3c-01-3sh)

Prerequisite: FIN310\* - Finance I or Equivalent  
(\*FIN310 is a prerequisite for all graduate finance courses such as FIN630)

The course provides an insight into the unique issues and problems that the manager of the multinational enterprise will face such as: working capital management; capital budgeting process; financing and investing abroad; capital and money markets; foreign exchange markets; and risk management.

## **II Course Objectives**

The course is offered to senior students majoring in Finance or International Management and MBA students.

At the completion of this course, students will be able to:

1. Measure the risk generated by volatility of the exchange rates.
2. Use the appropriate risk management technique to reduce the company's exposure to the exchange rate risk.
3. Identify the relevant international variables that affect the international financial decisions whether an investment decision or financing decision.
4. To convert currencies and calculate the cross rate for any one currency against other currencies using the different quoting systems.
5. Identify the different international sources of funds and the nature of the instruments available in the international capital and money markets.

### **Additional Objectives for Graduate Students**

At the completion of this course, students will be able to:

1. Assess the correlation among the global financial markets and their impact on the international diversification of the company's portfolio, a project worth 10% of the total grade.

2. Construct and evaluate the diversified portfolio using different approaches including the mean-variance; the CAPM and the APT, a project worth 10% of the total grade.
3. Conduct an empirical investigation using the available statistical software such as SPSS, SAS, etc., to test and forecast the exchange rates for the different currencies, a project worth 10% of the total grade.

### III Course Outline

The course will cover the following topics:

- |         |   |
|---------|---|
| 2 weeks | <ol style="list-style-type: none"> <li>1. The Foreign Exchange Market           <ul style="list-style-type: none"> <li>– Spot and Forward Markets (1 hour)</li> <li>– Forecasting Foreign Exchange (1 hour)</li> <li>– Managing Foreign Exchange Risk: Economic Exposure and Translation Exposure (4 hours)</li> <li>(Case 1: Managing Transaction &amp; Economic Exposures)</li> </ul> </li> </ol> |
| 1 week  | <ol style="list-style-type: none"> <li>2. Global Financial Markets           <ul style="list-style-type: none"> <li>– International Money Markets (1 hours)</li> <li>– Eurodollar and Other Currencies (½ hour)</li> <li>– International and Capital Markets: Bonds and Equities (1 hour)</li> <li>– International Banking and LDC Debt (½ hour)</li> </ul> </li> </ol>                             |
| 2 weeks | <ol style="list-style-type: none"> <li>3. International Portfolio Diversification           <ul style="list-style-type: none"> <li>– Risk and Return (2 hours)</li> <li>– Optimal International Portfolio (2 hours)</li> <li>– Exchange Rate Risk (2 hours)</li> <li>(Case 2: Constructing an International Portfolio)</li> </ul> </li> </ol>   |
| 1 week  | <ol style="list-style-type: none"> <li>4. Trade Documentation           <ul style="list-style-type: none"> <li>– Letter of Credit (1 hour)</li> <li>– Draft and Bankers' Acceptances (1 hour)</li> <li>– Bill of Lading (½ hour)</li> <li>– Other Documents (½ hour)</li> </ul> </li> </ol>   |
| 1 week  | <ol style="list-style-type: none"> <li>5. Trade Financing           <ul style="list-style-type: none"> <li>– Export Credit Insurance (1 hour)</li> <li>– Forfeiting (1 hour)</li> <li>– Countertrade (1 hour)</li> <li>(Case 3: Trade Financing)</li> </ul> </li> </ol>   |
| 2 weeks | <ol style="list-style-type: none"> <li>6. Direct Foreign Investment           <ul style="list-style-type: none"> <li>– Motives (1 hour)</li> <li>– Requirements (1 hour)</li> <li>– Evaluation (2 hours)</li> <li>– Risks (2 hours)</li> <li>(Case 4: Attracting Direct Foreign Investment by an Emerging Country)</li> </ul> </li> </ol>   |

weeks

- 7. Multinational Capital Budgeting
  - Complexities and Problems (1 hour)
  - Project Evaluation (3 hours)
  - Adjusting for Risks (2 hours)
 (Case 5: Establishing a Subsidiary in Another Country)

3 weeks

- 8. Working Capital Management
  - Managing International Cash Balances (2 hours)
  - Managing Receivables (3 hours)
  - Managing Inventory (3 hours)
  - International Fund Transfers (1 hour)
 (Case 6: Managing Payables & Receivables in a Foreign Transaction)

#### IV Evaluation Methods

Undergraduate: There will be two mid-term exams (multiple choice) worth 20% each, a final exam (problems and multiple choice) worth 50%, with the remaining 10% based on homework (end of chapter problems).

Graduate: Two mid-term exams (problems) worth 10% each, a term paper worth 20%, cases worth 10%, three short projects worth 30%, and a final exam (problems) worth 20%. The required term paper should be of publishable quality using the *Journal of Finance* methodology and style. (The term paper is no less than 10 pages and should be an applied research that involves extensive literature review and the use of empirical analysis using advanced statistical methods.) Topics should be related to the exchange rate determination, the international money and capital markets, the balance of payments, the techniques of capital budgeting by multinational corporations, the exposures to exchange rate risk, and foreign trade. The report should reflect the following points:

1. Problem identification
2. Literature review
3. Hypothesis development
4. Instrument design
5. Data collection and analysis
6. Result interpretation
7. Recommendation listing
8. Benefit contribution

#### Grading System:

<u>Undergraduate</u>		<u>Graduate</u>	
90% - 100%	= A	90% - 100%	= A
80% - 89%	= B	80% - 89%	= B
70% - 79%	= C	70% - 79%	= C
60% - 69%	= D	Below 70%	= F
Below 60%	= F		

Is the content or are the skills of the proposed course recommended by a professional society, accrediting authority, law, or other external agency?

No.

**B: INTERDISCIPLINARY IMPLICATIONS**

B1 Will this course be taught by one instructor or will there be team teaching?

One instructor.

B2 Are there additional or corollary courses needed of this course now or later?

No.

B3 What is the relationship between the content of this course and the content of courses offered by other departments?

There is another course called "International Economics" offered by the Economics Department. It deals with the macroeconomic issues of international trade among countries. But this suggested course deals with the financial management at the firm's level in an international or across the border environment. See attachment.

B4 Will seats in this course be made available to students in continuing education?

No.

**C: Implementation**

C1 What resources will be needed to teach this course and how adequate are the current resources?

None beyond those currently available within the department.

Faculty: There is adequate faculty complement to teach the course.

Space: There is adequate space to teach the course.

Equipment: This course requires no equipment beyond standard classroom equipment.

Laboratory Supplies and Other Consumable Goods: None.

Library Materials: No new acquisitions would be necessitated.

Travel Funds: When available, for research and professional development.

C2 Are any of the resources funded by a grant?

No.

C3 How frequently do you expect this course to be offered?

Once a year, but not restricted to a particular semester or session.

How many sections of this course do you anticipate offering in any single semester?

One section in any given semester.

C5 How many students do you plan to accommodate in a section of this course?

40 students.

C6 Does any professional society recommend enrollment limits or parameters for a course of this nature? If they do, please quote from the appropriate documents.

No.

C7 Will this course be a curriculum requirement?

The course will be a major elective for finance majors and a controlled elective for International Management majors and MBA students.

#### D MISCELLANEOUS

No additional information is necessary.

#### Rationale

To make course dual level: FIN424/FIN524

- Some of the MBA students desire a concentration in finance and need a course in International Financial Management
- Current courses in the MBA curriculum and increase emphasis on global issues have made this topic more important than before
- There is not a large enough demand to justify designing a 600 level course at present
- The current undergraduate course FIN424 is at the same level and can be designed to include a graduate component
- 500 level course is offered to MBA students who do not have a finance major.

## Required Textbooks and Supplemental Readings

### Required Textbooks:

Madura, Jeff, International Financial Management, 6<sup>th</sup> Ed., South-Western College Publishing, 2000.

Poniochek, Harvey H., Cases in International Finance, J. Wiley, 1993.

### Supplemental Readings:

- *Financial Times* (newspaper) (free access on the Internet)
- *Wall Street Journal* (free access on the Internet)
- Internet updates on International Financial Markets (<http://www.msdata.com>)

### Additional Supplementary Text for Graduate Students (on reserve at library):

Campbell, John Y.; Lo, W. Andrew and MacKinley, A. Craig, The Econometrics of Financial Markets, Princeton University Press, 1997.

## VI Special Resource Requirements

None. No lab fee.

## VII Bibliography

### Textbooks:

Campbell, John Y., Lo, Andrew W., MacKinlay, A., Craig, The Econometrics of Financial Markets. Princeton, 1997.

Gun, Theol. S., Resnick, Bruce G., International Financial Management, McGraw-Hill, 1998.

Fabozzi, Frank, Modigliani, Franco, Capital Markets, Institutions and Instruments, 2<sup>nd</sup> Ed., Prentice Hall, 1996.

Haskins, Mark E., Ferris, Kenneth R., Selling, Thomas I. International Financial Reporting and Analysis, 2<sup>nd</sup> Ed., McGraw-Hill, 2000.

Melvin, Michael, International Money and Finance, 6<sup>th</sup> Ed., Addison Wesley Longman, 2000.

Shapiro, Alan C., Multinational Financial Management, 6<sup>th</sup> Ed., Wiley, 1999.

Textbook:

Solnik, Bruno, International Investment, 4<sup>th</sup> Ed., Addison Wesley Longman, 2000.

Journals:

Abraham, Abraham (1999), "Interest rate dynamics and speculative trading in a fixed exchange rate system," International Review of Economics and Finance, Vol. 8, No. 2.

Elder, Adam, Gannon, Gerard (1999), "The Evaluation of Volatility Forecasts in an Economic Value Framework," International Review of Financial Analysis, Vol. 7, No. 3.

Hsieh, Nigel C., T., Lin, Antsong, Swanson, Peggy E. (1999), "Global money market interrelationships," International Review of Economics and Finance, Vol. 8, No. 1.

Kamin, Steven B. (1999), "The current international financial crisis: how much is new?," Journal of International Money and Finance, Vol. 18, No. 4.

Kwark, N. S. (1999), "Sources of international business fluctuations: country-specific shocks or worldwide shocks?," Journal of International Economics, Vol 48, No. 2.

Kwon, Chung S., Shin, Tai S. (1999), "Cointegration and causality between macroeconomic variables and stock market returns," Global Finance Journal, Vol. 10, No. 1.

Poon, Winnie P. H., Firth, M., Fung, Hung-Gay (1999), "A multivariate analysis of the determinants of Moody's bank financial strength ratings," Journal of International Financial Markets, Institutions and Money, Vol. 9, No. 3.

Shin, Hyun-Han, Soenen, Luc (1999), "Exposure to currency risk by US multinational corporations," Journal of Multinational Financial Management, Vol. 9, No. 2.

Stekler, H. O., Fintzen, D. (1999), "Why did forecasters fail to predict the 1990 recession?," International Journal of Forecasting, Vol. 15, No. 3.

FEB 15 1994

LSC Use Only  
Number \_\_\_\_\_  
Action \_\_\_\_\_  
Date \_\_\_\_\_

UWUCC USE Only  
Number # 93-26  
Action App 2/15/94  
Date Sen App 3/1/94

CURRICULUM PROPOSAL COVER SHEET  
University-Wide Undergraduate Committee

I. TITLE/AUTHOR OF PROPOSAL

Course/Program Title: FI 424 International Financial Management  
Suggested 20 character course title: Intl Fin Mgmt  
Department: Department of Finance and Legal Studies  
Contact Person: Dr. Ibrahim Affaneh

II. If a course, it is being proposed for:

- Course Approval/Revision Only
- Course Approval/Revision and Liberal Studies Approval
- Liberal Studies Approval Only (course previously approved by Senate.)

III. APPROVALS

[Signature]  
Department Curriculum Committee

[Signature]  
Department Chairperson

[Signature]  
College Curriculum Committee

[Signature]  
College Dean \*

\_\_\_\_\_  
Director of Liberal Studies  
(where applicable)

\_\_\_\_\_  
Provost (where applicable)

\* COLLEGE DEAN MUST CONSULT WITH THE PROVOST BEFORE APPROVING CURRICULUM CHANGES. APPROVAL BY COLLEGE DEAN INDICATES THE PROPOSED CHANGE IS CONSISTENT WITH LONG RANGE PLANNING DOCUMENTS, ALL REQUESTS FOR RESOURCES IN THE PROPOSAL CAN BE MET, AND THE PROPOSAL HAS THE SUPPORT OF THE UNIVERSITY ADMINISTRATION.

III. TIMETABLE

Date Submitted:  
to LSC \_\_\_\_\_  
to UWUCC \_\_\_\_\_

Semester to be  
implemented: \_\_\_\_\_

Date to be  
published  
in Catalog \_\_\_\_\_



AUG 04 1993

LSC Use Only  
Number \_\_\_\_\_  
Action \_\_\_\_\_  
Date \_\_\_\_\_

UWUCC USE Only  
Number 93-26  
Action \_\_\_\_\_  
Date \_\_\_\_\_

**CURRICULUM PROPOSAL COVER SHEET**  
University-Wide Undergraduate Committee

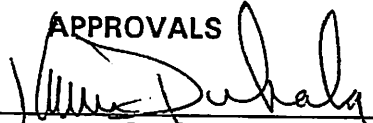
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Course/Program Title: FI 424 International Financial Management  
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Department: Department of Finance and Legal Studies  
Contact Person: Dr. Ibrahim Affaneh


**II. If a course, it is being proposed for:**

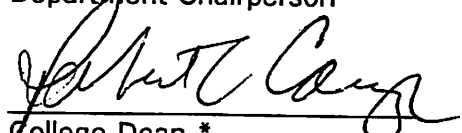
- Course Approval/Revision Only
- Course Approval/Revision and Liberal Studies Approval
- Liberal Studies Approval Only (course previously approved by Senate.)

**III. APPROVALS**

  
Department Curriculum Committee

  
Department Chairperson

  
College Curriculum Committee

  
College Dean \*

\_\_\_\_\_  
Director of Liberal Studies  
(where applicable)

\_\_\_\_\_  
Provost (where applicable)

\* COLLEGE DEAN MUST CONSULT WITH THE PROVOST BEFORE APPROVING CURRICULUM CHANGES. APPROVAL BY COLLEGE DEAN INDICATES THE PROPOSED CHANGE IS CONSISTENT WITH LONG RANGE PLANNING DOCUMENTS, ALL REQUESTS FOR RESOURCES IN THE PROPOSAL CAN BE MET, AND THE PROPOSAL HAS THE SUPPORT OF THE UNIVERSITY ADMINISTRATION.

**III. TIMETABLE**

Date Submitted:  
to LSC \_\_\_\_\_

Semester to be  
implemented: \_\_\_\_\_

Date to be  
published  
in Catalog  
\_\_\_\_\_

to UWUCC \_\_\_\_\_

## II. Description of Curriculum Change

### 1. CATALOG DESCRIPTION:

FI 424 International Financial Management

3 credits  
3 lecture hours  
0 lab hours  
(3c-0l-3sh)

Prerequisite: FI 310 Finance I

Corequisites: None

The financial management concepts, useful in a single-country context, must be adapted for the international variables and constraints caused by being international. The course provides an insight into the unique issues and problems that the manager of the multinational enterprise will face such as: working capital management; capital budgeting process; financing and investing abroad; capital and money markets; foreign exchange markets; and risk management.

**COURSE SYLLABUS**  
**FI 424: International Financial Management**

**I. Catalog Description**

FI 424 International Financial Management

3 credits  
3 lecture hours  
0 lab hours  
(3c-0l-3sh)

Prerequisite: FI 310 Finance I

Corequisites: None

The financial management concepts, useful in a single-country context, must be adapted for the international variables and constraints caused by being international. The course provides an insight into the unique issues and problems that the manager of the multinational enterprise will face such as: working capital management; capital budgeting process; financing and investing abroad; capital and money markets; foreign exchange markets; and risk management.

**II. Course Objectives**

1. Students will learn the different methods of quotations in the foreign exchange markets.
2. Students will learn the functions and the interrelationship between the international capital markets and the trend toward their integration.
3. Students will learn about the risks involved in the international capital market and the techniques used to hedge those risks.
4. Students will learn how to construct a diversified international portfolio.
5. Students will learn about the additional variables and factors that affect the financial decisions regarding the capital investment by the multinational corporations.
6. Students will learn about the different techniques to manage the working capital by the multinational corporations.

**TARGET:** Senior students majoring in Finance or International Management.

**III. Course Outline**

The course will cover the following topics:

- 6 hours 1. The Foreign Exchange Market
- Spot and forward markets (1 hour)
  - Forecasting Foreign Exchange (1 hour)
  - Managing Foreign Exchange Risk: Economic Exposure; Transaction Exposure and Translation Exposure (4 hours)
- 3 hours 2. Global Financial Markets
- International Money Markets (1 hour)
  - Eurodollar and Other Currencies (1/2 hour)
  - International Capital Markets: Bonds and Equities (1 hour)
  - International Banking and LDC debt (1/2 hour)

- 6 hours 3. International Portfolio Diversification
  - Risk and Return (2 hours)
  - Optimal International Portfolio (2 hours)
  - Exchange Rate Risk (2 hours)
- 3 hours 4. Trade Documentation
  - Letter of Credits (1 hour)
  - Draft and Bankers Acceptances (1 hour)
  - Bill of Lading (1/2 hour)
  - Other Documents (1/2 hour)
- 3 hours 5. Trade Financing
  - Export Credit Insurance (1 hour)
  - Forfeiting (1 hour)
  - Countertrade (1 hour)
- 6 hours 6. Direct Foreign Investment
  - Motives (1 hour)
  - Requirements (1 hour)
  - Evaluation (2 hours)
  - Risks (2 hours)
- 6 hours 7. Multinational Capital Budgeting
  - Complexities and problems (1 hour)
  - Project evaluation (3 hours)
  - Adjusting for risks (2 hours)
- 9 hours 8. Working Capital Management
  - Managing international cash balances (2 hours)
  - Managing receivables (3 hours)
  - Managing inventory (3 hours)
  - International fund transfers (1 hour)

#### **IV. Evaluation Methods**

There will be two mid-term exams worth 20% each, a final exam worth 40%, with the remaining 20% based on the submission and presentation of a term paper.

#### **V. Required Textbooks, Supplemental books and readings**

Eitman, David and Stonehill, Arthur I. Multinational Business Finance, 5th ed., Addison-Wesley, Reading MA, 1989.

#### **VI. Special Resource Requirements**

None. No lab fee.

## VII. Bibliography

1. Shapiro, Alan C. Multinational Financial Management, 3rd ed., Allyn & Bacon Inc., Boston, 1989.
2. Abdullah, Fuad. Financial Management for the Multinational Firm, Prentice Hall, 1989.
3. Kolb, Robert W., editor, The International Finance Reader, 2nd ed., Kolb Publishing Company, Miami, FL, 1993.
4. Kester, W. Carl and Luehrman, Timothy A., Case Problems in International Finance, McGraw-Hill, Inc., New York, NY, 1993.
5. Eitman, David K., Stonehill, Arthur I. and Moffett, Michael H., Multinational Business Finance, 6th ed., Addison-Wesley Publishing Company, Reading, MA, 1992.

## COURSE ANALYSIS QUESTIONNAIRE

### A: DETAILS OF THE COURSE

**A1 How does this course fit into the programs of the Department? For what student is the course designed?**

This course will be a major requirement for students in the International Management program. In addition, it broadens the selection of courses available for finance majors and other business students at a time when international operations and competition in the international markets have become increasingly important to firms of all sizes.

**A2 Does this course require changes in the content of existing courses or requirements for a program?**

No effect on other courses offered by the College of Business. Also, it differs from other courses offered by the Economics Dept. since this course deals with adapting the financial management concepts to the international environment. It is concerned with the international operations and problems of the individual firm but not the macroeconomics of the international relations as in the economics course. No changes in the descriptions of the courses or department programs are required as a result of adopting this course.

**A3 Has this course been offered at IUP on trial basis? Yes.** Dr. Affaneh taught the course under FI 481 in the Fall 1993. Twenty students enrolled in the course. It was well received by the students.

**A4 Is this a dual level course? No**

**A5 Can the course be taken for variable credit? No**

**A6 Do other higher education institutions offer this course? (SSHE? Regional Colleges and universities? National Colleges and universities? If so, please list examples and provide copies of course descriptions where available.)**

Yes, such as: Harvard, University of Wisconsin, University of Michigan, Penn State, University of Virginia, UCLA, Northwestern University, Columbia University, MIT, Dartmouth College, the University of Pittsburgh, etc.

**A7 Is the content, or are the skills, of the proposed course recommended by a professional society, accrediting authority, law, or other external agency? No**

### B: INTERDISCIPLINARY IMPLICATIONS

**B1 Will the course be taught by one instructor or will there be team teaching? One instructor**

**B2 What is the relationship between the content of this course and the content of courses offered by other departments?**

There is another course called "International Economics" offered by the Economics Department. It deals with the macroeconomic issues of international trade among countries. But this suggested course deals with the financial management at the firm's level in an international or across the border environment. (See Attachment.)

**B3 Will seats in this course be made available to students in continuing education? No**

### C: IMPLEMENTATION

**C1 Are faculty resources adequate?**

There is adequate faculty complement to teach the course. It has been observed that the demand for our business core course FI 310 Finance I is declining, thus freeing sufficient faculty complement to staff this course. This has been established by the fact that the course was taught as a special course topic (FI 481) in the Fall of 1993 with twenty students enrolled in the course, without negative affect upon the ability of the department to offer its traditional courses.

**C2 What other resources will be needed to teach this course?**

**Space:** Same experience as above; there has been and is adequate space.

**Equipment:** This course requires no equipment beyond standard classroom furnishings.

**Laboratory Supplies and Other Consumable Goods:** None

**Library Materials:** No new acquisitions would be necessitated.

**Travel Funds:** When available, for research and professional development.

**C3 Are any of the resources funded by a grant? No**

**C4 How frequently do you expect this course to be offered?**

Once a year, but not restricted to a particular semester or session.

**C5 How many sections of this course do you anticipate offering in any single semester?**

One section in any given semester.

**C6 How many students do you plan to accommodate in a section of this course?**

40 students, limited by classroom sizes in McElhaney and Uhler Halls.

**C7 Does any professional society recommend enrollment limits or parameters for a course of this nature? If they do, please quote from the appropriate documents. No**

**D. MISCELLANEOUS**

No additional information is necessary.