



**The Peter F. Drucker and Masatoshi Ito Graduate School of Management  
Claremont Graduate University**

**Multinational Corporate Finance  
MGT 334  
Fall 2009**

**Professor:** James Mills  
Office : Burkle 213  
Telephone: 909.607.3151  
Office Hours: Tuesday, 10:00-11:30 pm  
Thursday, 10:00-11:30 am  
E-Mail: [jim.mills@cgu.edu](mailto:jim.mills@cgu.edu)  
Faculty Support: Kathy Holden  
Telephone: 909.607.9061  
E-Mail: [kathy.holden@cgu.edu](mailto:kathy.holden@cgu.edu)

**REQUIRED TEXTS**

*Multinational Business Finance*, David Eiteman, Arthur Stonehill & Michael Moffett, Eleventh Edition (Addison-Wesley) 2007 (here after referred to as **MFT**)

**LECTURE NOTES, PROBLEM AND EXERCISE SOLUTIONS**

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**FOCUS OF THE COURSE:**

The course, Multinational Corporate Finance, focuses on the financial activities of the multinational enterprise. The multinational enterprise is a corporation that has operating subsidiaries, branches or affiliates located in foreign countries. The success of the multinational enterprise is conditional on its ability to recognize and benefit from imperfections in national markets for products, factors of production, and financial assets. Unlike its purely domestic counterpart, the multinational enterprise must be able to navigate through a myriad of tax regimes, capital markets and government regulations. It must accomplish this while successfully engaging in cross-border transactions denominated in a multitude of currencies.

The course is structured as a combination of the underlying theory for, and the practice of, international financial management. International financial management requires a thorough understanding of on foreign exchange risk management, working capital management, cross-border sourcing capital globally, cross-border investments and capital budgeting decisions and finally multinational tax management. The lectures will focus primarily on the theory. The application will be addressed through in-class case discussions and analysis.

### **COURSE OUTLINE\*\***

<b>Date/ Class</b>	<b>Subject/Lecture Note Reference/Additional Readings/Cases</b>	<b>Readings (MFT)/ Questions (Q)/Exercises (P)</b>
<b>Sept 3: Week 1</b>	<i>Global Financial Environment: Financial Goals, International Monetary System and the Balance of Payments</i>  <b>Introduction to Multinational Corporate Finance (Section A-1)</b> <b>Foreign Exchange Markets (Section A-2)</b>	<b>MFT Ch 1-3, 6</b> <b>(Q) Ch 3: 2-6,9-11, 15</b> <b>(P) Ch 3: 5-8, 22-29</b>
<b>Sept 10: Week 2</b>	<i>Foreign Exchange Theory</i>  <b>Exchange Rate Forecasting (Section B-1)</b> <b>Parity Conditions (Section B-2)</b>	<b>MFT Ch 6, 4-5</b> <b>(Q) Ch 6 : 1-4, 7, 9</b> <b>(P) Ch 6: 3-9, 12-14</b>
<b>Sept 17: Week 3</b>	<i>Risk Management: An Overview</i>  <b>Understanding the Needs of the Corporate Treasurer: Section (Section C-1)</b> <b>Designing a Risk Strategy (Section C-2)</b>  <b>Cases: “Turkey’s Kriz (A): Deteriorating Balance of Payments”, pages 91-93 (Discussion only)</b>	<b>MFT Ch 4-5</b> <b>(Q) Ch 4: 1, 5-10, Ch 5: 1-3, 7-8, 10, 12</b> <b>(P) Ch 4: Entire Ch 5: Odd numbers</b>
<b>Sept 24: Week 4</b>	<i>Risk Management: An Overview</i>  <b>Fundamentals of Risk Management (Section C-3)</b> <b>Identifying Risk Profiles (Section C-4)</b>  <b>Cases: “The Introduction of the Porsche 911 Carrera 4S Cabriolet”, pages 123-124</b> <b>“Turkey’s Kriz (B): Uncovered Interest Arbitrage”, pages 125-128</b>	

Oct. 1: Week 5	<i>Foreign Exchange Risk Management</i>  Identifying Foreign Exchange Exposure: (Section D-1)  Cases: “The Venezuelan Bolivar Black Market”, 197-201	MFT Ch 8 (Q) Ch 8: Entire (P) Ch 8:5-11, 14-15, 17-20
Oct. 8: Week 6	<i>Overview of the Risk Management Products: Forwards</i> Forward Rate Based Products (Section D-2) Roll-Over Forward Cover (Section D-3)  Cases: “Xian-Janssen Pharmaceutical and the Euro”, pages 274-277	MFT Ch 7 (Q) Ch 7: 1-6, 10 (P) Ch 7: 2-5, 7-8, 10
Oct 15: Week 7	<i>Overview of the Risk Management Products: Options</i>  Options Based Products (Section D-4)  Cases: “Lufthansa’s Purchase of Boeing 737s”, pages 278-279	MFT Ch 9 (Q) Ch 9 : 1-2, 5-13, (P) Ch: 1-5, 8-10
Oct 22: Week 8	<i>Mid-Term Exam</i>	
Oct. 29: Week 9	<i>Measurement and Management of Risk</i>  Measuring & Managing Translation Exposure (Section E-1) Measuring & Managing Strategic Exposure (Section E-2)	MFT Ch 10 (Q) Ch 10: 1- 10, 12-13, (P) Ch 10: Entire
Nov 5: Week 10	<i>Risk Management Extensions</i>  Marketing and Pricing Issues: Section L FX Invoicing and Pricing Issues: Section M Cases: “Porsche Exposed”, pages 322-325 “Toyota’s European Operating Exposure”, pages 326-329	
Nov 12: Week 11	<i>Trade Finance</i>  Trade Finance: Section (F-1) Cases: “La Jolla Engineering Services”, pages 357-357	MFT Ch 20 (Q) Ch 20: 1 4, 6-7, 10  (P) Ch 20:1-6
Nov 26: Week 13	Thanksgiving Break	
Dec. 3 : Week 14	Debt and Interest Rate Risk Management: Global Cost of Capital and Currency Swaps  Interest Rate Risk Management: Section P	MFT Ch 11, 14 (Q) Ch 14: 1, 5, 7-11 (P) Ch 14: 1-3,

	Cases: “Honeywell and Pakistan Airways”, pages 736-738	6-8, 10
Dec. 10: Week 15	International Tax Management  International Tax Management: Section Q  Case: “McDonald’s Corporation’s British Pound Exposure”, pages 485-486	MFT Ch 21 (Q) Ch 21: 2-7, 9, 11-12, 17-19 (P) Ch: 2-3, 7-9
Dec 17: Week 16	Final Exam	

**\*\*Calendar subject to change.**

The following mini-cases require you to turn in an *individual* written response to the questions on the cases given in the text. The write-ups are due at the start of the class period that the case will be discussed. The individual case write-ups shall be no more than 2 pages, double-spaced with appropriate margins. Please use 12 font.

The Introduction of the Porsche 911 Carrera 4S Cabriolet, pages 123-124  
Xian-Janssen Pharmaceutical and the Euro, pages 274-277  
Lufthansa’s Purchase of Boeing 737s, pages 278-279  
Toyota’s European Operating Exposure”, pages 326-329  
Crosswell International’s Precious Ultra-Thin Diapers, pages 666-670

The following mini-cases require you to turn in a *group* written response to the questions on the cases given in the text. The groups will be assigned by me. The write-ups are due at the start of the class period that the case will be discussed. The group case write-ups shall be no more than 4 pages, double-spaced with appropriate margins. Please use 12 font.

Turkey’s Kriz (B): Uncovered Interest Arbitrage, pages 125-128  
Porsche Exposed, pages 322-325  
La Jolla Engineering Services, pages 357-357  
Honeywell and Pakistan Airways, pages 736-738  
McDonald’s Corporation’s British Pound Exposure, pages 485-486

The solutions to the problems and the questions in the Moffett test are available electronically on Sakai. You are expected to work on these questions and problems **on your own**. They will form the basis for some of the questions and problems on both the midterm and the final.

**Course Grading (Approximate)**

Mini-Case Write-ups	25%
Mid-term Examination	45%
Final Exam	30%

The mid-term Examination will cover everything up to and including the material through week 7 of the class. **The midterm will be held during the class session on Thursday, October 22.** The Final will cover the material presented from week 9 through week 15 and will be administered during finals week, most likely on December 17.