

## COURSE GUIDE

Course Data	
Name	<b>Global Finance and Financial Management</b>
Grade	<b>Master in International Management (MIM)</b>
Year	<b>2017-2018</b>
Semester	<b>1st and 2nd</b>
ECTS Credits	<b>6</b>
Status	<b>Compulsory</b>
Department	<b>ICADE Business School</b>
Area	<b>Business Management</b>

Teacher's Data	
Professor	
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## SPECIFIC DATA OF THE COURSE

Course context	
Contribution to the professional profile of the master	
<p>Multinational corporations continue to expand their operations globally. They must not only be properly managed to apply their comparative advantages in foreign countries, but must also manage their exposure to many forms and sources of risk. These firms' exposure is especially pronounced in developing countries where currency values and economies are volatile. As international conditions change constantly, so do opportunities and risk. Those multinational corporations that are most capable of responding to changes in the international financial environment will be rewarded. The same can be said for today's students who become the multinational corporation managers of the future. This course provides a strong foundation for students' with the subject of international finance. It combines the fundamentals of international financial theory with current, practical application and provides thorough, up-to-date treatment of cutting-edge issues along with traditional treatment of international financial management.</p>	
Goals	

The expected student learning outcomes are:

- Identify shareholder wealth maximization as the goal of the multinational firm
- Describe the key theories that justify international business
- Explain how exchange rate movements are measured
- Examine the factors that determine/identify the equilibrium exchange rate
- Explain how currency futures and forward contracts and currency options contracts are used for hedging or speculation based on anticipated exchange rate movements
- Describe the exchange rate systems used by various governments
- Explain how governments can use direct and indirect intervention to influence exchange rates
- Explain the concept of interest rate parity, and how it prevents arbitrage opportunities
- Explain the Purchasing Power Parity (PPP) and International Fisher Effect (IFE) theories, and their implications for exchange rate changes
- Explain and compute how transaction exposure, economic exposure, and translation exposure can be measured
- Assess the different sources of country risk and their potential impact on the performance of multinational financial corporations
- Explain how multinational corporations determine whether to use foreign financing
- Illustrate and compute the possible benefits of financing with a portfolio of currencies
- Explain the various techniques used to optimize cash flows and compute the effective financing rate
- Demonstrate how multinational capital budgeting can be applied to determine whether an international project should be implemented, computing the NPV, IRR, and PBP
- Explain how corporate and country characteristics influence a multinational corporation's cost of capital
- Explain how corporate and country characteristics are considered by a multinational corporation when it establishes its capital structure

## SECTIONS AND CONTENTS

### Contents

#### **First Semester**

#### **Part I: The International Financial Environment**

International financial markets

- Motives for using international financial markets
- Foreign exchange market
- International money, credit, and bond markets
- International stock markets

Exchange rate determination

- Exchange rate movements and their measure
- Factors that influence exchange rates

Currency derivatives

- Forward market
- Currency future market
- Currency options market
- Currency call options
- Currency put options
- Contingency graphs for currency options

#### **Part II: Exchange Rate Behaviour**

International arbitrage and interest rate parity

- International arbitrage
- Comparison of arbitrage effects
- Interest rate parity (IRP)

Relationship among inflation, interest rates, and exchange rates

- Purchasing power parity (PPP)
- International Fisher effect (IFE)
- Comparison of the IRP, PPP, and IFE

## **Second Semester**

### **Part III: Exchange Rate Risk Management**

Foreign exchange rates

- Exchange rate forecasting techniques
- Evaluation of forecast performance
- Exchange rate volatility

Measuring exposure to exchange rate fluctuation

- Relevance of exchange rate risk
- Transaction, economic, and translation exposure

### **Part IV: Long-Term Assets and Liability Management**

Multinational capital budgeting

- Factors to consider in multinational capital budgeting
- Adjusting project assessment for risk
- Benefits of international diversification

Country risk

- Political risk factors
- Financial risk factors
- Analysing and measuring country risk
- Risk ratings among countries
- Incorporation of country risk in capital budgeting

Multinational cost of capital and capital structure

- Cost of capital of a multinational corporation
- The International Capital Asset Pricing Model (ICAPM)
- The multinational corporation's capital structure decision

Long-term financing

- Long-term financing decision
- Cost of debt financing
- Exchange rate risk of financing
- Reducing the exchange rate risk of financing

### **Part V: Short-Term Assets and Liability Management**

Short-term financing

- International financing by multinational corporations
- Determining the effective financing rate
- Financing with a portfolio of currencies

## Competencies

### Generic competencies of the course

#### GENERAL COMPETENCIES:

- CG1 Cognitive abilities of analysis and synthesis, applied to business situations and organizational management scenarios.
- RA1 Able to cope with the analytical case studies and scenarios; also to make effective synthesis of information and data.
- CG2 Management of information and data as key elements for decision-making and for identifying, formulating and solving business problems.
- RA1 Able to search and analyze information from various sources.
  - RA2 Searches, identifies, appropriately synthesizes and uses primary and secondary data from various sources.
  - RA3 Discerns the value and usefulness of different sources and types of information, contrasting them, critically analyzing and incorporating own assessments.
  - RA4 Incorporates information to its own discourse.
  - RA5 Properly quotes the sources used.
- CG3 Problem solving and decision making at the strategic, tactical and operational levels of a business organization, taking into account the interrelationship between the different functional and business areas.
- RA1 Identifies and understands the different strategies of internationalization that a global enterprise can implement, identifying the ethical and governance dilemmas arising therefrom.
  - RA2 Able to cope with the analytical studies, making use of information and data, in many cases incomplete.
  - RA3 Identifies and defines suitably and proactively, the problem and its possible causes.
  - RA4 Raises possible relevant solutions and design an action plan to be implemented.
- CG4 Application of concepts and theories to ongoing businesses and/or to start-ups to discover new business opportunities and achieve lasting competitive advantages in the international arena.
- RA1 Relates concepts in an interdisciplinary or transversal way.
  - RA2 Knows how to set initiatives and applies them in financial management, in marketing and in project management in an international arena.
  - RA2 Identifies the extent and usefulness of theoretical notions.
- CG5 Interpersonal skills to listen, negotiate, persuade, and also to work in multidisciplinary teams to operate effectively in different roles, and, when necessary, to assume leadership responsibilities in the business organization
- RA1 Integrates into teams and plays an effective role.
  - RA2 Able to hear the views of others and to make themselves understood.
  - RA3 Able to make a persuasive exchange of ideas through a negotiating process to reach agreements with others.
  - RA4 Knows the debating technique and oratory, and knows how to use it in professional situations.
  - RA5 Assesses the potential conflict as an engine of change and innovation.
  - RA6 Communicates ideas effectively and in a reasoned manner.
  - RA7 Looks for the value of other team members and enhances their skills and strengths, making them feel important part of the team

- RA8 Leads the team work, organizing and delegating tasks correctly.
- CG6 Ethical commitment in the implementation of moral values and business values to be applied when facing ethical and corporate social responsibility dilemmas.
  - RA1 Understands and appreciates different cultural and ideological perspectives.
  - RA2 Sensitive to the ethical dimension of social and ecological problems.
  - RA3 Takes a responsible attitude towards people, and the means and resources that are used or managed in an organization.
  - RA4 Worries about the consequences that its activity and behavior can have on others.
  - RA5 Incorporates in its speech and in its action proposals, the consequences they may have for the various stakeholders of a global organization.
  - RA6 Understands and appreciates different cultural and ideological perspectives.
  - RA7 Sensitive to the ethical dimension of social and ecological problems.
- CG7 Time management capacity in order to improve personal and team effectiveness within the framework of business organizations, environment and management.
  - RA1 Able to organize and meet deadlines assigned to tasks.
  - RA2 Hierarchizes time and energy to study.
- CG8 Critical thinking and argumentation consistent with the knowledge of business organizations, their external context and their administrative and management process.
  - RA1 Applies independent thinking and personal reflection on various issues. Identifies the assumptions and limitations of methods and theories.
  - RA2 Identifies, establishes and contrasts hypotheses, variables and results logically and critically.
  - RA3 Able to build its own discourse, in a context of debate and exchange of views.
- CG9 Ability to learn independently for a long-life training to develop cognitive skills and relevant knowledge to be applied to professional and business performance
  - RA1 Able to gather prepare and expand information prior to their participation in activities involving the construction of an argued own speech or proposing innovative solutions to a problem.
  - RA2 Makes jobs and activity needing only some initial indications and basic monitoring, implementing skills necessary for independent research.
  - RA3 Search and find adequate resources to sustain their activities and perform their jobs.
  - RA4 Broadens and deepens in carrying out their work.
  - RA5 Reads, synthesizes and is able to produce book reviews and monographs.

**Specific competencies of the area**

CE8 Understands the effect of the firms' international operations on the investing and financing decisions, as so the opportunities and derived risks, inherent to the international financial markets and of operating in diverse currencies.

RA1 Recognizes and value the inherent challenges of the multinational financial management.

RA2 Demonstrates an understanding of the factors which determine the cost of capital in the international context.

RA3 Knows the currency market and the determinants of the price fluctuations.

RA4 Is able to analyse the parity relationship among different currencies.

RA5 Knows the risk hedging mechanisms and is able to apply them in practice.

RA6 Applies the asset pricing models in the international arena.

RA7 Understands the concept of country risk and its importance in international business.

## **TEACHING METHODOLOGY**

<b>General methodological aspects of the course</b>	
<b>Presential Methodology: Activities</b>	<b>Competencies</b>
Lectures	CG1, CG2, CG3, CG4, CG8
Active Debates	CG5, CG6, CG7, CG8, CG9
Analysis of cases and scenarios: brief business cases and scenarios, individually and in teams.	CG1, CG2, CG3, CG4, CG5, CG6, CG7, CG8, CG9
<b>Non Presential-based methodology: Activities</b>	<b>Competencies</b>
Individual studying and reading	CG1, CG6, CG7, CG8, CG9
Preparation of materials (readings, presentations, videos,...)	CG5, CG7, CG8, CG9
Analysis of cases and scenarios: brief business cases and scenarios	GG1, CG2, CG3, CG4, CG07, CG08, CG09
Tutorials	

## EVALUATION AND GRADING CRITERIA

Assessment activities	Weight
Class participation	10%
Final Exam	40%
Mid-term tests (2)	20%
Group case studies (3)	30%

An exam will have to be passed for those students in extraordinary recall.

STUDENT WORKING PLAN			
PRESENTIAL HOURS			
Theoretical sessions	Practices	Guided academic activities	Evaluation
28	26		6
NON-PRESENTIAL HOURS			
Autonomous work on theoretical contents	Autonomous work on practical contents	Collaborative work	Self-study
20	20	20	30
CREDITS ECTS:			6

## BIBLIOGRAPHY AND SOURCES

Basic References
<p><b>Books</b></p> <p><b>Required textbook:</b>  <b>Madura J.</b> International Financial Management, 12<sup>th</sup> Edition, South-Western CENGAGE Learning</p> <p><b>Optional textbooks:</b>  <b>Eun, Ch. and Resnick, B.</b> International Financial Management, 7<sup>th</sup> Edition, McGrawHill.</p> <p><b>Madura, J. and Fox, R.</b> International Financial Management. South-Western CENGAGE Learning.</p> <p><b>Eiteman, D., Stonehill, A. and Moffett, M.</b> Multinational Business Finance, Global 14<sup>th</sup> Edition, Pearson.</p> <p><b>Bekaert, G. and Hodrick, R.</b> International Financial Management, Pearson New International Edition, 2nd Edition.</p> <p><b>Copeland, L.</b> Exchange Rates and International Finance, 6th Edition, Pearson.</p>