Today’s financial environment is heavily influenced by globalization, information technology, and geopolitics. Relatively recent global financial developments include: the American Credit Crisis of 2008; followed by the Eurozone Sovereign Debt Crisis commencing in 2009; implementation of unconventional monetary policies like QE1, 2, 3…on a global scale; the rise of emerging economies like Brazil, Russia, India, China and South Africa (BRICS) and the future of the yuan; all of which have serious business implications world-wide. With the ongoing liberalization of international trade and investment on a regional and multilateral basis, the nations of the world are becoming increasingly interdependent. It is therefore imperative that finance majors have a fundamental understanding of international finance issues.

Course Objectives
The goal of this course is to provide you with a strong macro and micro foundation in international financial management, which will (1) enable you to interpret and respond to the day-to-day financial challenges faced by firms in a global geopolitical setting, (2) provide you with a solid understanding of exchange rate systems and dynamics, (3) empower you to measure and manage foreign exchange risk with the help of key currency derivatives, and (4) enable you to make sound long term foreign direct investment (including M&A) decisions.

Learning Outcomes
After successful completion of this course, you should be able to:

- Explain how the international monetary and exchange rate systems operate
- Analyze a country’s balance of payments and its impact on a nation’s exchange rate and the economy
- Identify key exchange rate determinants and forecast exchange rates
- Evaluate and identify the appropriate instrument to finance international trade
- Identify and interpret key international finance theories and their relevance
- Measure and manage foreign exchange risk
- Identify methods of conducting international business and evaluate the financial risk associated with each approach
- Define MNE and rationalize the rise of Emerging Market Multinationals and Global Innovation
- Determine the weighted average cost of capital and the “hurdle rate” of MNEs
- Conduct international project analysis to determine viability of proposed initiative and make presentation to a mock management committee.
Course Content
FINC/IBUS 645 is a structured course, which examines the impact of a dynamic international monetary system on currency risk and financial decision-making of multinational firms in a global geopolitical environment. The course is divided into three segments. First, we will survey the international monetary system including: the balance of international payments; the workings of the international credit and foreign exchange markets including the role of trade finance; and, the important complexities of exchange rate systems followed by countries, and exchange rate determination. Second, we will examine the impact of exchange rates movements on corporate decision making, i.e., foreign exchange-risk measurement and management and the use of currency derivatives. And, we will study some major international finance theories. Finally, we will study foreign direct investment (FDI), i.e., why, where, and how your firm will invest abroad.

The course's pace will be quite rapid because of the subject matter's broad scope and the limited time. It may not be possible, therefore, to either explore all aspects of international financial management or with the preferred degree of depth.

Course Prerequisites
A strong background in principles of macro and microeconomics, and corporate finance (FINC 612 or 635) will be required. This challenging course will be of particular interest to students seeking a career in finance, international business, or with federal or multilateral institutions. Yet with rapid globalization of business and increased interdependence of nations, even Texas cattle ranchers will find the lectures/discussions useful in their day-to-day financial decision-making.

Required Readings: *The Financial Times or Wall Street Journal*
Highly Recommended Readings: *The Economist, and Bloomberg Business Week*
Other Recommended Readings: *Foreign Affairs, IMF Staff Papers, Finance and Development (IMF), OECD Observer, Transnational Corporations, Journal of International Business Studies*
Suggested TV News Programs: *Public Broadcasting Service (PBS): Frontline, Wide Angle, Point of View (POV), Now, Globe Trotter*
Radio Stations: *National Public Radio (FM 90.7: 6:00-9:00 a.m. and 4:00-6:00 p.m.), and KEOS (FM 89.1) British Broadcasting Corporation Newshour (8:00 a.m. and 5:00 p.m.)*

Mays Business School Food & Beverage Policy:
We have well-kept and state-of-the-art classrooms in the Wehner Building. We want to maintain the high quality of these classrooms for students in future years. Thus, it is necessary for you to adhere to the established policy of NO BEVERAGES (except water), FOOD, TOBACCO PRODUCTS, OR ANIMALS (unless approved) within the Wehner Building classrooms. Your cooperation is greatly appreciated.

Operating Plan
1. Given the global, operational, and policy-oriented nature of the course, it is vital that you arrive well prepared (assigned readings and/or chapters of textbook) for class to achieve course objectives. I will periodically ask questions to stimulate discussion and your thought process.
2. While homework will not be assigned and graded, it is important that you work as many end of chapter problems as you can so that you understand key concepts. For a start, work the self-test problems at the end of each chapter in the text.
3. Current events related to international business/geopolitics and finance will be discussed in class (you are encouraged to initiate the process), along with readings, DVD programs and guest speaker presentations. You will be examined on the content.
### Grading Policy

<table>
<thead>
<tr>
<th>Component</th>
<th>Score</th>
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<tbody>
<tr>
<td>Exam-1 (multiple choice and problems)</td>
<td>30</td>
</tr>
<tr>
<td>Exam-2 (multiple choice and problems)</td>
<td>30</td>
</tr>
<tr>
<td>Research Project (paper 30% and presentation 10%)</td>
<td>40</td>
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</tbody>
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**Total Possible: 100**

### Grade Ranges:

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<tr>
<th>Grade</th>
<th>Range</th>
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<tr>
<td>A</td>
<td>90 – 100</td>
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<tr>
<td>B</td>
<td>80 – 89.9</td>
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<tr>
<td>C</td>
<td>70 – 79.9</td>
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<tr>
<td>D</td>
<td>60 – 69.9</td>
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<tr>
<td>F</td>
<td>0 – 59.9</td>
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</table>

Your course grade will be determined by adding the points you earned in the two exams, Research Project (30% for the written project with peer evaluation, and 10% for in-class presentation). The exams will be designed to test (a) your understanding of key international finance concepts (and definitions), and (b) your problem-solving and critical/strategic-thinking skills. Visit my website for sample tests. If, *at the end of the course*, it is determined that a curve is needed, the cut off for various grades will be adjusted accordingly to determine the appropriate letter grade. In order to ensure that all students are treated in an equitable manner, everyone’s grade will be determined solely based on their performance in the exams. Nothing can be done for extra credit.

### Make-up Exams:

If you are unable to take an exam for a valid reason, recognized by the university ([http://student-rules.tamu.edu/rule7.htm](http://student-rules.tamu.edu/rule7.htm)), such as illness or death in the family, a makeup exam will be scheduled. The fact that these are university-excused absences does not relieve you of the responsibility to notify me and you will be required to produce documentary evidence to substantiate your claim. Failure to notify and/or document properly may result in an unexcused absence. The makeup exam could consist of multiple choice and/or essay type questions. The make-up exam will generally be given within one week of the date of the exam. It is your responsibility to schedule the date of the make-up exam with me. An unexcused absence during a scheduled examination will be recorded a “zero” on your record.

### ADA Statement:

The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you have a disability requiring an accommodation, please contact Disability Services ([http://disability.tamu.edu](http://disability.tamu.edu)) Department of Student Life, Room B118 Cain Hall, or call 845-1637.

### Academic Integrity Statement:

“An Aggie does not lie, cheat or steal, or tolerates those who do.” Upon accepting admission to Texas A&M University, students immediately assume a commitment to uphold the Honor code, to accept responsibility for learning and to follow the philosophy and rules of the Honor System. Ignorance of the rules does not exclude any member of the Texas A&M community from the requirements or the processes of the Honor System. For additional information please visit [http://www.tamu.edu/aggiehonor/](http://www.tamu.edu/aggiehonor/)

### Attendance Policy and Course Approach

It is mandatory that you attend classes regularly and be ready for discussions based on assigned readings and current global events. The class will generally commence with an analysis and discussion of current global geopolitical developments or international business/financial issue/event. You are required to read financial newspapers regularly,
(e.g., Financial Times, or The Wall Street Journal, The Economist, or Bloomberg Business Week), in order to follow closely the changes taking place in the global business environment. Neither the Battalion nor the Eagle is adequate for our purpose. A detailed discussion of assigned readings or a lecture/discussion on the theories, approaches, and application of international finance policy tools will follow. Given your solid corporate finance background, class discussions will focus more on the complex issues related to exchange rate systems/determination and their role in international financial management. Questions on the exams will cover guest lectures (if any), videos, and classroom discussions/current issues, which may or may not be covered in the text. It is therefore imperative that you attend classes regularly, in body and in mind.

About your instructor
Dr. Julian Gaspar is the Executive Director of the Center for International Business Studies and Clinical Professor of Finance at Mays Business School, where he is responsible for internationalizing the business school’s curriculum, students and faculty. Dr. Gaspar is the director of Texas A&M University’s Center for International Business Education and Research (CIBER) program (one of 17 such centers in the nation), which is funded by the U.S. Department of Education. Dr. Gaspar teaches international finance (FINC 645) in College Station, and FINC445/645 during the summer in Strasbourg, France where he conducts a 5-week Mays Study Abroad Program with 30 Aggies each year. Dr. Gaspar has a B.S. in Chemical Engineering from the University of Madras in India, an MBA from Indiana University-Bloomington, and a Ph.D. in International and Monetary Economics from Georgetown University in Washington, D.C. Dr. Gaspar has been with Mays Business School since 1991.

Prior to joining TAMU, Dr. Gaspar was an International Economist with the World Bank in Washington, D.C. for four years. His responsibilities included financial and industrial restructuring of developing and transition economies of Central Europe and the Middle East. He has extensive experience in international project economic and financial analysis having worked for the International Finance Corporation (World Bank) as well as a consultant with the U.S. Department of State. Dr. Gaspar also has extensive corporate experience having worked as an international economist with the Bank of America in Tokyo and in San Francisco for seven years where he conducted country and industry risk analysis and researched and analyzed debt problems of developing countries. Dr. Gaspar devised financial restructuring strategies for Bank of America associated with the Philippines debt crisis in 1985.

Dr. Gaspar has traveled/worked in over 60 countries covering all continents. His regional expertise covers Africa, Asia, the Middle East, Central Asian Republics, Europe and Latin America. Dr. Gaspar just completed directing a U.S. Department of State-funded project to help set up the first modern graduate business school in Tashkent, Uzbekistan. Dr. Gaspar also teaches executive programs in Guatemala and in France. Dr. Gaspar is the lead-author of two textbooks “Introduction to Business” 2nd ed. (2015) and “Introduction to Global Business” 2nd ed. (2016).
### Tentative Course Outline: FINC/IBUS 645-201/202

(Textbook Chapters and Assigned Readings)

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
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<tbody>
<tr>
<td>7/7</td>
<td><strong>THE INTERNATIONAL MONETARY SYSTEM</strong>&lt;br&gt;Course Overview&lt;br&gt;Global Geopolitical Business Environment&lt;br&gt;The Rise of China: <em>J. Gaspar</em></td>
</tr>
<tr>
<td>7/8</td>
<td>Video: Inside Job</td>
</tr>
<tr>
<td>7/9</td>
<td>The American Credit Crisis of 2008: <em>J. Gaspar</em>&lt;br&gt;Discussion of Credit Crisis: Causes and lessons learnt</td>
</tr>
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<td>7/10</td>
<td>Chapter-1 <a href="#">Multinational Financial Management</a><em>Emerging Giants, Business Week, July 31, 2006</em></td>
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<tr>
<td>7/15</td>
<td>Chapter-3 <a href="#">International Financial Markets</a><em>The ABCs of ADRs, JP Morgan Chase Bank</em></td>
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<td>7/21</td>
<td>Chapter-4 <a href="#">Exchange Rate Determination</a><em>Exam-1</em></td>
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<td>7/22</td>
<td>Chapter-5 <a href="#">Currency Derivatives</a><em>Managing Transactions Exposure&lt;br&gt;International Arbitrage and Interest Rate Parity&lt;br&gt;Relationship among Inflation, Interest Rates and Exchange Rates</em></td>
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<td>7/23</td>
<td>Chapter-7 <a href="#">Measuring Exposure to Exchange Rate Fluctuations</a><em>Managing Economic and Translation Exposure</em></td>
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<td>7/24</td>
<td>Chapter-11 <a href="#">Multinational Capital Budgeting</a><em>Multinational Restructuring&lt;br&gt;Multinational Cost of Capital and Capital Structure</em></td>
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<tr>
<td>7/31</td>
<td>Video: PBS Frontline- Blackmoney &amp; Curse of Inca Gold</td>
</tr>
<tr>
<td>8/3</td>
<td>Chapter-13 <a href="#">Direct Foreign Investment</a>(Project Paper Due)<em>Corruption Perception Index: Transparency International</em></td>
</tr>
<tr>
<td>8/4</td>
<td>Chapter-14 <a href="#">Managing Transactions Exposure</a><em>Managing Economic and Translation Exposure</em></td>
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<tr>
<td>8/5</td>
<td>Chapter-15 <a href="#">Managing Economic and Translation Exposure</a><em>Managing Economic and Translation Exposure</em></td>
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<tr>
<td>8/6</td>
<td>Chapter-17 <a href="#">Multinational Cost of Capital and Capital Structure</a><em>Exam-2</em></td>
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<tr>
<td>8/7</td>
<td>Student Presentations</td>
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<tr>
<td>8/10</td>
<td>Student Presentations</td>
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Managing Your Own Multinational Corporation (MNC)

Dr. Julian Gaspar, Professor of International Finance
FINC 645: International Finance
Mays Business School, Texas A&M University

Your team-project paper should be a minimum of 19 pages in length and not exceed 20 pages (inclusive of cover page, table of contents, charts, tables, map, bibliography, etc.) Typing should be double-spaced using a font size of 12. For information on Datasteam and other library resources for this project please contact West Campus Library (Ms. Ashley Faulkner, Business Librarian & Assistant Professor, West Campus Library aefaulkner@library.tamu.edu) and visit http://guides.library.tamu.edu/finc645.

In this project (running your own MNC), you will have the opportunity to apply key concepts learnt in the course. Many MNCs started as small firms that focused initially on exporting a single product or service to another country. The exported product or service was sold initially through a single distributor based in a foreign country or may have been sold through the mail based on mail-order ads. For your project, you may choose your MNC’s home base to be the United States or some other country. You should focus your effort on conducting business with one target country (and deal with that target country’s local currency). Many issues addressed in this project will allow you to learn a lot about conducting international business between two countries and their currencies.

1. **Stage I: Develop Your Idea for Exports (Chapters 1 & 2)**

   Develop a strategy and make a convincing case why your MNC would like to produce a particular product or service and initially export it to the target country. It is extremely important that you clearly (and in detail) identify the comparative advantage of sourcing the product/service at your home base and initially export it to the target foreign country. Hence, you should look into the supply side as well as the demand side for your product/service. Your idea should be practical to the degree that you could possibly implement this project someday. However, your idea should also be sufficiently creative to be successful if done properly. You should focus sales to one target country and its currency, since many MNCs started operations in this manner. To appreciate issues related to exchange rate risk that are discussed in this text, you should assume that you will receive foreign currency (other than the home currency) when selling your product abroad. The following questions will help you define your MNC objectives:

   1. What product/service do you plan to produce at home (rationale? competitive advantage?) and sell abroad?
   2. What foreign country (and why) do you plan to target? What is their demand for your product/service?
   3. How will you market the product in the target country (i.e., through a distributor? retailer? franchise? By mail? E-commerce?, social media? etc.), and why?
   4. What is your evidence (or rationale) that consumers in the target country would buy your product/service?
   5. Will you need to purchase foreign inputs or hire foreign labor to sell overseas?
   6. Will any expense that you incur related to production and marketing the product/service be in the target country’s currency?
   7. Identify factors such as tariffs/quotas that can affect trade in goods/services between your home country and the target country of business. Explain how each of these factors may affect the demand for your product.
   8. Which of the above factors, if any, is likely to be most important in affecting the demand for your product/service?

**Accessing Trade Data:** Determine whether the product/service that you plan to sell is already one of the main exports to the target country. (Sources: www.state.gov, www.cia.gov, search “Foreign Economic Trends and Country Name; www.globaledge.msu.edu/resourceDesk/). **Accessing Import Controls:** Review the import controls set by that country’s government. Determine whether your business would be affected by trade regulations.
2. **Using the Foreign Exchange Market to Ensure Payment for Exports. (Chapters 3, 5, 11, and 19)**

1. Explain how you will ensure payments for your exports.
2. What bank do you plan to use to exchange the foreign currency received for exports? What is the bid/ask spread (in percentage) in the spot market for the foreign currency on a recent quotation by that bank? (Call the bank to obtain quotations or check a financial newspaper or DataStream or go to [http://sonnet-financial.com/rates/full.asp](http://sonnet-financial.com/rates/full.asp). Determine the prevailing bid and ask exchange rates for the foreign currency that you will use for your business transactions.) What is your interpretation of the spread’s magnitude?
3. Explain what types of forward contracts are available for hedging.
4. Can you use currency futures to hedge the exchange rate risk of your company? Provide details of futures contracts for your foreign target currency. Go to [http://www.cme.com](http://www.cme.com). Determine the prevailing futures price of the foreign currency for your business. Go to [http://www.oanda.com](http://www.oanda.com) and determine the prevailing spot rate. What is the discount or premium of the futures price?
5. Are currency options available to hedge the exchange rate risk of your company?
6. Will the importer of your product/service be willing to pay you with the home currency? Why could this be a problem for the importer?

3. **Forecasting Foreign Currency Movements (Chapters 4 & 6)**

1. Go to [http://www.oanda.com](http://www.oanda.com). Click on FXTrends. Explain how the target foreign currency for your business has moved over (a) the last month, (b) the last three months, (c) the last year, and (d) past five years. Is there a trend over the last year? Last five years? What is the mean percentage change in each of the above four periods.
2. Is it likely that the target foreign currency will follow the past one-year trend? If you believed that the currency's value would continue following the recent trend, would it appreciate, depreciate, or remain about the same in the near future? Does the foreign central bank intervene to support/weaken their currency? How will you determine this? (Accessing Central Bank Information: Go to [http://patriot.net/~bernkopf/](http://patriot.net/~bernkopf/). Or, go to the Web site link for the central bank in your target country. Determine whether this central bank intervenes to control its currency in the foreign exchange market.) Also, by looking at that country’s balance of payments statistics (level of international reserves and exchange rate movements over the same time period) determine if foreign central bank intervenes in the foreign exchange market. How will central bank intervention affect your business?
3. What key factors (using regression analysis –using quarterly historical data) likely affect the value of the foreign currency of concern over time? Based on this information forecast (next five years) the exchange rate of the target foreign currency. Will the foreign currency (a) continue to strengthen, (b) continue to weaken, or (c) remain stable at current rates over the next five years. You will use this forecast in your cash flow analysis in Stage II of your project.

4. **Stage II: Establishing a Subsidiary in Foreign Country (Chapter 13&14)**

1. Assuming that your international business strategy is successful, identify how you would go about establishing a subsidiary in the foreign country rather than continue exporting. Develop a cash flow statement for a five-year (investment year + four years of operation) project. Utilize the foreign exchange forecast (Item#3) that you developed earlier to adjust your five-year foreign currency cash flows.
2. Given the nature (economic and geopolitical environment) of your foreign target country, identify your exit strategy associated with your MNC subsidiary.

5. **Recognizing Exposure to Exchange Rate Risk (Chapter 10)**

When you created your business strategy, it was assumed that your receivables would be denominated in the foreign currency in Stage I. In Stage II, operations are somewhat different.
1. Describe and quantify your exposure to foreign exchange rate risk in Stage II. Describe the exchange rate conditions (stable, appreciating, depreciating, fixed, etc.) affecting the performance of your business.

2. Is your business subject to transaction exposure? economic exposure? translation exposure? Explain why your business is or is not subject to each of these types of exposures.

6. **Deriving a Required Rate of Return for an International Project and Assessing Exposure to Country Risk (Chapters 14 and 17)**

1. Explain the capital structure that you would use to run your foreign subsidiary.

2. Describe the economic factors that expose your subsidiary to country risk.

3. Describe the geopolitical factors that expose your subsidiary to country risk. Having decided to establish a subsidiary overseas as indicated above, determine how you would derive a required rate of return (using WACC and country risk premium [http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html) ) for this project.

7. **Conclusion**

Based on the subsidiary’s cash flows (in foreign currency), your exchange rate forecast, your required rate of return based on capital structure, determine your project’s net present value and determine if your project will be viable.