INTERNATIONAL FINANCIAL MANAGEMENT
CLASS CODE: AG424
2014/15 SEMESTER 2

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CLASS AIMS
Globalization of business is now a fact and no business entity could be argued to be operating in a purely local environment. In fact, the term local is gradually becoming outdated, arguably replaced by the term Global. This class is geared to achieve the objectives of honour’s year by motivating the critical discussions and debates on the operation of business finance in the global environment. Using text book, scientific empirical research outputs and application of the issues discussed in the lecture, this class aims to equip future global business leaders (you students) with the tools needed to:

- Appreciate the global financial management issues, puzzles and theories
- Make sound global financial decisions
- Manage the myriad risks that today’s businesses face in a competitive global environment
- Appreciate the corporate strategic issues in international setting along with the associated international political and economic risks.

LEARNING OUTCOMES
The following learning outcomes will contribute to your self-analysis and reflection in your Student’s Personal Development Planning (SPDP).

1. **Subject-specific knowledge and skills:**
   On completing this subject, students should:
   
   - Appreciate the challenges and opportunities encountered by multinational corporations in a globalized world economy
   - Identify factors that influence foreign exchange rates
   - Distinguish between different exchange rate systems and the associated currency risks.
   - Discuss the debates on purchasing power parity puzzle.
   - Understand the motives for using international capital markets
• Discuss the measurement and management of real exchange rate risk
• Understand the role of key factors to be considered in international capital budgeting and determination of international costs of capital
• Analyse the key political and economic risk factors in international business

2. Cognitive abilities and non-subject specific skills

In addition to specific skills, students are also expected to develop the following cognitive, key and transferable skills:

• Competence in interpreting and evaluating international financial problems posed both in quantitative and non-quantitative terms;
• Ability to connect international academic theories to the practice of international financial management;
• Communication and writing skills will also be developed in the assignment project;
• Information technology skills in use of the class web-sites and links, word-processing in assessed projects; and
• Understand the language and observe the practice of international financial management industry by reading relevant academic and practitioner papers.

ASSESSMENT

The criteria used in assessment are set out on the last page of this outline and is the basis of marks achieved on the final examination and coursework. The weighting of the coursework and examination reflects the balance of learning outcomes associated with the different pieces of work.

Late submission of assignments will normally result in a penalty of 15%. Compelling reasons for lateness, such as illness or bereavement, must be documented and will be submitted to the honours board of examiners who will determine whether the penalty should be applied.

During the course of the semester there will be opportunities for you to assess your own progress in an informal manner (sometimes called ‘formative’ assessment) and there will be opportunities for you to receive formal assessment of your achievements that contribute to your final mark for the class (this is sometimes called ‘summative’ assessment). This document includes a pro-forma that will enable you to evaluate your achievement of the learning outcomes associated with this class. You can use this to help guide the emphasis you give to studying the various required components of the class.

Formal (summative) assessment will comprise:
1) Final written unseen examination paper in the May/June 2015 examination diet contributing 60% to the final mark. The exam will take 2 hours. The criteria used in assessment are given on page 12 of this class outline.

2) Course work, contributing 40% to the final mark, is due no later 06 March 2015, 4.30 pm. Coursework consists of a case study on managing foreign exchange
rate risks (see below for details). The coursework will be a group effort of 5 students with word limit of 4000. Maximum size of groups is 5 students.

TEACHING AND LEARNING
The subject will be delivered via a weekly 3 hour session and teaching methods will include blend of formal lecturing, analysis of real data, point-counterpoint debates and solving of empirical exercises.

REASSESSMENT
This is an honours year class and under normal circumstances there is no reassessment.

PREREQUISITES
This class is designed for those who have successfully completed all requirements for the pass degree in the School of Business.

READINGS:

Core reading


There are a number of useful learning resources on the companion website of the Madura and Fox text at: http://www.cengage.co.uk/madura_fox/. The readings required for each lecture are indicated in the detailed class diary on page 7 of this class outline.

Other Textbook References


Additional sources of information

*Datastream* is an extremely rich source of international financial data (currencies, stocks, bonds, macro statistics, etc.). This is available via the Departmental Computing Officer.

*International Financial Statistics*, published monthly by The International Monetary Fund, contains much financial and macroeconomic data for IMF member countries.

*The Economist's Intelligence Unit* publishes quarterly *Country Reports* and annual *Country Profiles*. These are good, for example, for details on countries’ foreign exchange regimes.


*The National Bureau of Economic Research (NBER)* produces a working paper series that contains current academic articles on international topics.

*Euromoney*, magazine specializing in International Finance.

PLAGIARISM:

In submitting coursework, you are affirming that any and all sentences, graphs, charts, tables etc., **not specifically attributed to another source** are your own creation.

It is essential that you provide **complete citations for all statements or analyses** presented in your literature review **that are derived wholly or in part from the works of others**. To do otherwise is to present, as your own, the ideas, empirical evidence or analysis actually produced by someone else. This includes any materials you find published in source consulted by you, including any and all materials published (posted) on the internet. This specifically includes working papers posted on author(s)’ websites, departmental websites, special interest group websites and so forth.

Some students object that this will require a citation of a source after every sentence. This objection has no substance. If a citation is required and you supply it, this is taken as evidence of good scholarship and will be rewarded. If, however, a citation is required and you do not supply it, this will be considered poor scholarship (and points deducted) or plagiarism (the paper will be returned and you will be expected to offer an explanation). If the entire essay is composed of materials copied entirely from sources found in the course of your research (including materials downloaded from the world wide web) and presented as if said materials are of your own creation, you will fail this class and place your degree in jeopardy.
It is good record-keeping practice to maintain an evidence file for all written work submitted; this will enable you to support your usage of sources if this is questioned when the work is assessed. Since many students rely on the internet for their searches, you might find it wise to keep records of the path of those searches and the address of any sources downloaded so it can be cited in your references.

**GROUP COURSE WORK DESCRIPTION (Group of 5)**

Compare and contrast how the four global firms you chose operate internationally and manage economic foreign exchange exposure. The background materials are covered in lectures 1 - 3.

- Try to choose five very different global firms (only non-financial companies) operating in different industries, different regions (countries) and possibly three headquartered in developed country and the other two in developing country. More the variations more you will learn when comparing and contrasting.

- For each company identify and analyse the following issues:
  - A brief history on how it emerged as global firm from its days of formation.
  - Its key business activities and in which countries are its international activities based
  - Reasons for expanding internationally – what are the opportunities.
  - The methods of undertaking international business and the reasons for opting particular method/s (theoretical and practical).

- Identify how the global firms are exposed to foreign exchange economic exposure? What are the economic explanations of such exposure as identified by theoretical and empirical evidences from the academic literature

- Identify the methods/strategies of managing foreign exchange economic exposure? Again, what are the economic explanations of such management practices identified by theoretical and empirical evidences from the academic literature

- Do the firm specific characteristics, such as industry, region/country, size, history, global reach in terms of business and connections, influence the methods and strategies of managing foreign exchange economic exposure? Does the competitive global business environment in which the firm operates also influences the management of foreign exchange economic exposure?

- Provide a detailed report on comparing and contrasting on the strategies/policies adopted by the five different firms in managing economic exposure.

- Finally, write a concluding part which provides a complete summary of the research and should also include concluding remarks, including learning
experience. Given, another opportunity what improvements would you make in conducting the case study again.

**Sources of empirical materials**
There is an abundance of publicly available information on Global 500 firms including

a. Materials published by them on their websites.

b. Material on the company details produced by stakeholders, such as profit forecasts by investment firms, assessments of company corporate social responsibility by NGO’s, government regulatory departments, etc.

c. Media coverage of the corporation including the daily papers, specialist investment magazines and so forth.

In addition, many of these firms have been the studied by business and management researchers. In some cases, the specific firm you are interested in has not been studied (or is not identified as such) but the type of firm you are interested in has been studied. You can draw on academic research for supporting materials and insights on the issues of interest to you.

**Writing style**
The text must be double spaced in times new roman 12 font with one inch margins. Smaller fonts and/or less than double spacing are not acceptable. Fully justify the text (Ctrl+j).

Section heading style examples (all flush left): example below

1. **Heading** (Level 1. 12 font in bold.)
   1.1. **Sub-heading** (Level 2. Subheading in italics NOT bold)
   1.1.1. **Sub-heading** (Level 3. This subheading in italics NOT bold)

**Sources of qualitative and quantitative materials**
There is an abundance of publicly available information on Global firms including


e. Material on the company produced by stakeholders, such as profit forecasts by investment firms and others.
f. Media coverage of the corporation including the daily papers, specialist investment magazines and so forth.

g. If needed, you may obtain the financials for a firm from its annual report (www.reportgallery.com) or 10-K (www.sec.gov/edgarhp.htm), and you may get data from the previous years by visiting the Morningstar data site (www.morningstar.com) or a comprehensive site maintained by daily stocks (www.dailystocks.com).

h. Other sources of information are: ABI/INFORM Complete, Business and Industry, FAME, ProQuest, Financial Times, The Economist etc. available from library database.

**Writing style**

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Section heading style examples (all flush left): example below

1. Heading (Level 1. 12 font in bold.)
   1.1. Sub-heading (Level 2. Subheading in italics NOT bold)
   1.1.1. Sub-heading (Level 3. This subheading in italics NOT bold)

**Word Limit** *(Note a single report needs to be submitted for the group)*

Maximum: 4000 words. Please place a word count in the final page of your report.

**Format**

Focus on the content and I am flexible on format, but please provide some sense of typical formatting. There is no one format that will work for everyone. You might find it worthwhile keeping these general suggestions in mind while writing the report:

1. An *integrated report* works better than separate reports for each firm. Please note that you need to submit one report for the group.
2. *Do not rehash* what should be *common knowledge* related to your project. Thus, detailed description of transaction exposure is not necessary, but explaining why your firms have the variations in exposures and the way they manage is an absolute necessity.
3. Use *tables to summarize data* and findings. Since the analysis is paralleled across the companies, you might find it useful, where possible; to start each section with a table that summarizes your findings for that section across the companies in your group.
4. *Do not include the data sources* that you used for your report (such as annual reports). If you are including your spread-sheet output, attach only the output pages and not the input pages.

5. Finally, be brief.
<table>
<thead>
<tr>
<th>Week No. (beginning)</th>
<th>Topic</th>
<th>Textbook readings</th>
<th>Academic papers</th>
</tr>
</thead>
</table>
| 1(26 Jan)            | Multinational corporation and globalisation | (MF, Ch. 1) and BH (Ch.1) | Mihir A Desai, (Jul/Aug 2008), The Finance Function in a Global Corporation, Harvard Business Review. Boston 86, 7, 108  
| 2(02 Feb)            | Purchasing power parity | (MF, Ch. 8) and (BH, Ch. 8) | Taylor, A and Taylor, M, (2004), “The purchasing power parity debate.” Journal of Economic Perspective 18, 135-158.  
| 4(16 Feb)            | Balance of Payment | (MF, Ch. 2) and (BH Ch.4) | Bank for International Settlements, (2010), “80th Annual Report, Basel, Switzerland: BIS.  
International Monetary Fund (IMF), 1993, |
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading/Research Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>5(23 Feb)</td>
<td>Exchange rate system</td>
<td>(MF, Ch. 6 and (BH, Ch. 5)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wang, Y (2010), ‘Effectiveness of Capital Controls and Sterilizations in China, China and the World Economy 18, pp. 106-124</td>
</tr>
<tr>
<td>6*(02 Mar)</td>
<td>Reading/research week</td>
<td></td>
</tr>
<tr>
<td>7(09 Mar)</td>
<td>Motives for using global capital markets</td>
<td>Ch 3(MF)</td>
</tr>
<tr>
<td>Date</td>
<td>Topic</td>
<td>Chapter/Section</td>
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<tr>
<td>(06 Apr)</td>
<td>Easter Break</td>
<td></td>
</tr>
<tr>
<td>(13 Apr)</td>
<td>Easter Break</td>
<td></td>
</tr>
</tbody>
</table>


*Coursework due (Friday of week 6, i.e. 06 March 2015, 4.30 pm)

All academic papers are available from the University of Strathclyde library ABI/INFORM Global (ProQuest). Note that the above list is not exhaustive and further papers will be referred during the delivery of the course.
## Criteria used in Assessment

<table>
<thead>
<tr>
<th>Overall</th>
<th>First class (70+)</th>
<th>Upper second (69-60)</th>
<th>Lower second (59-50)</th>
<th>Third (40-49)</th>
<th>Fail (below 40)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Demonstration of <strong>excellent understanding</strong> of subject; work includes a clear plan of exposition, relevant examples and demonstrates a clear (not necessarily original) synthesis of required readings.</td>
<td>Demonstration of <strong>comprehensively good understanding</strong> of subject; work includes a clear plan of exposition, relevant examples and demonstrates a synthesis, of most of the required readings</td>
<td>Demonstration of <strong>generally good understanding</strong>; work shows some balance but not well planned; it includes some relevant examples. At least partial synthesis of required readings is demonstrated.</td>
<td><strong>Demonstration of learning outcomes is satisfactory.</strong> Work demonstrates a somewhat superficial understanding, is poorly organised and with limited synthesis limited to a small number of required readings.</td>
<td><strong>Poor performance in learning outcomes.</strong> Work is poorly structured and is quite superficial. Examples show no evidence of selection for relevance. No evidence of synthesis.</td>
</tr>
<tr>
<td>Quality of Analysis</td>
<td>High quality of conceptual understanding</td>
<td>Good standard of analysis, focusing on the nature of the question and the balance of evidence presented to support the argument</td>
<td>Shows analytical skill but with some gaps in critical evaluation</td>
<td>Analytical skill is limited and heavily derived from the work of others.</td>
<td>No analytical skill shown.</td>
</tr>
<tr>
<td>Subject Specific Learning Outcomes</td>
<td>Excellent understanding of concepts. Comprehensive use of required readings and some of the suggested readings</td>
<td>Very Good understanding of concepts. Thorough use of all required readings and some use of suggested readings</td>
<td>Good understanding of concepts and issues arising. Most of the required readings are referenced.</td>
<td>Basic understanding of concepts and issues arising, some stronger than others. Reference to some of the required readings.</td>
<td>Limited understanding of concepts. Little or no reference to required readings.</td>
</tr>
<tr>
<td>Cognitive Skills Learning outcomes:</td>
<td>Candidate’s own opinion is well developed and logically argued, demonstrating skill in linking all class readings to her interpretation.</td>
<td>Candidate’s own opinion is logically argued, demonstrating skill in linking her conclusions to all class readings</td>
<td>Candidate’s opinion is logically argued, however, relies on a limited subset of required readings.</td>
<td>Independent thought limited and limited ability to develop implications and inferences from evidence.</td>
<td>No evidence of ability to form an independent interpretation of materials.</td>
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