
LSE-PKU Summer School 2009

AF207 Multinational Business Finance

Outline and Reading List

Instructor

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Objectives

This course analyses the international financial environment within which multinational firms and financial institutions operate and the theories and practices of international financial management. Through the study of international parity conditions, students learn the fundamental concepts of exchange rate determination. Currency forwards, futures, options, and operating exposures are introduced to help students develop key skills in managing transaction exposures to exchange rate risk. This course also discusses international financing strategies, interest rate instruments such as futures, options, and swaps to cover interest rate risks, and describe international investment strategies including multinational capital budgeting. The basic course objective is to teach students to evaluate the international financial and monetary framework, to analyze and solve problems arising in the international financial operations of a firm, to use the concepts and skills of exchange rate and interest rate risk management and to formulate international financing and investment strategies.

Textbook

Eiteman, Stonehill and Moffett (ESM hereafter), *Multinational Business Finance*, 11th ed., Addison Wesley, 2007

Prerequisites

Corporate Finance or Financial Management

Assessment

Students will be given problem sets (answers provided) for review and practice. Assessment will be based on one quiz, one final examination and class participation.

Quiz	30%
Final	60%
Class participation	10%

Workload expectations

For undergraduate courses, one credit is defined as equivalent to an average of three hours of learning effort per day necessary for an average student with a full understanding of the prerequisites to achieve an average grade in the course. Therefore you should, on average, expect to spend an additional two hours a day on coursework outside the classroom.

Problem sets and their correspondence with the lectures

Note: Some questions in the problem sets are not explicitly covered in the lectures. Students are expected to find references in the textbooks or other readings. All problem sets build upon knowledge covered in prior lectures, although focus is placed on most recent ones.

Problem Set 1: International Financial Environment and the Foreign Exchange Market

Corresponds to Lectures 1 ~ 3 and their assigned readings.

Problem Set 2: International Parity Conditions and Exchange Rate Determination

Corresponds to Lectures 2 ~ 4 and their assigned readings.

Problem Set 3: Currency Futures and Options; Transaction Exposure Management

Corresponds to Lectures 5 and 6 and their assigned readings.

Problem Set 4: Operating and Translation Exposure Management

Corresponds to Lectures 6 and 7 and their assigned readings.

Problem Set 5: International Financing and Interest Rate Risk Management

Corresponds to Lectures 7 and 8 and their assigned readings.

Problem Set 6: Foreign Direct Investment and Other Topics

Corresponds to Lectures 9 and 10 and their assigned readings.

Course Outline

- Lecture 1** Introduction to the international financial environment, balance of payments, the balance of payment approach to exchange rate determination
Readings: ESM Chapters 1, 3
“Balance of Payments,” lecture note
- Lecture 2** International Monetary System and Exchange Rate Regimes
Readings: ESM Chapter 2
“International Monetary System,” lecture note
- Lecture 3** The foreign exchange market and exchange rate risks, transaction exposure management.
Readings: ESM Chapter 6
“Foreign Exchange Markets,” lecture note
- Lecture 4** International parity conditions and applications
Readings: ESM Chapters 4 and 5
“Exchange Rates, Interest Rates, and Prices,” lecture note

- Lecture 5** Currency futures and options, basic characteristics, applications
Readings: ESM Chapter 7
- Lecture 6** Transaction exposure management
Readings: ESM Chapter 8
- Lecture 7** Measuring and managing operating and accounting exposures
Readings: ESM Chapters 9 and 10
- Lecture 8** International financing strategies
Readings: ESM Chapters 11 –13
- Lecture 9** Measuring and managing interest rate exposure
Readings: ESM Chapter 14
- Lecture 10** International investment strategies and multinational capital budgeting
Readings: ESM Chapters 15 – 19