

The slide features a decorative left margin with several vertical bars of varying shades of blue and a cluster of five teal circles of different sizes. The text is positioned to the right of these elements.

FN 313:

INTERNATIONAL FINANCIAL MANAGEMENT

Semester 1/2011

FN 313

Lecture Time: Saturdays, 9:00 – 12:00

Text:

Eun, Cheol S. and Bruce G. Resnick (2009), **International Financial Management** (*Fifth Edition*), McGraw-Hill.

Instructor:

Dr. Nasha Ananchotikul

nashaa@bot.or.th

FN 313

Grading Policy:

Midterm Examination	30%
Final Examination	50%
Attendance & Participation	10%
Assignments	10%

COURSE OUTLINE

Part 1: Introduction to International Finance

- Globalization and the multinational firm
- International monetary system
- Balance of payments

Part 2: Foreign Exchange and Derivatives

- FX market
- FX determination
- FX futures and options

COURSE OUTLINE

Part 3: Foreign Exchange Exposure and Management

- Transaction exposure
- Economic exposure
- Translation exposure

Part 4: World Financial Markets and Institutions

- Banking and money market
- Bond market
- Equity market
- Interest rate and currency swaps
- International portfolio investment

COURSE OUTLINE

Part 5: Multinational Financial Management

- FDI and cross-border acquisition
- International trade finance
- International tax environment

Globalization & the Multinational Firm

1

Chapter One

- Why is it important to study international finance?
- International finance VS. Domestic finance.

WHAT'S SPECIAL ABOUT “INTERNATIONAL” FINANCE?

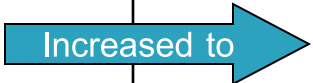
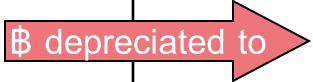
- Foreign Exchange Risk
- Political Risk
- Cross-border Market Imperfections
- Expanded Opportunity Set

WHAT'S SPECIAL ABOUT "INTERNATIONAL" FINANCE?

Foreign Exchange Risk

- The risk that foreign currency profits may evaporate in **local currency** terms due to unanticipated unfavorable exchange rate movements.

Suppose an American invests in a Thai stock:

	Buy 1 share in 2007		Sell 1 share in 2008
Price of the stock	฿ 330	Increased to 	฿ 340
Exchange rate	฿ 33/\$	฿ depreciated to 	฿ 35/\$
	Pay \$10		Receive \$9.7

WHAT'S SPECIAL ABOUT "INTERNATIONAL" FINANCE?

Political Risk

- Sovereign governments have the right to regulate the movement of goods, capital, and people across their borders. These laws sometimes change in unexpected ways.
- Political uncertainty also affects investor confidence about the direction of the economic and investment policy.

WHAT'S SPECIAL ABOUT "INTERNATIONAL" FINANCE?

Cross-border Market Imperfections

- Legal restrictions
- Transactions costs
- Shipping costs
- Discriminatory taxes
- Information asymmetry

WHAT'S SPECIAL ABOUT "INTERNATIONAL" FINANCE?

Expanded Opportunity Set

- By expanding business internationally, firms can benefit from greater economies of scale, lower cost of capital, cheaper labor and raw materials, lower risks and higher potential returns from diversification.
- True for corporations as well as individual investors.

EMERGENCE OF GLOBALIZED FINANCIAL MARKETS

Factors contributing to increased financial globalization:

- Deregulation of Financial Markets
- Advances in Technology have greatly reduced information and transactions costs, which has led to:
- Financial Innovations, such as
 - Currency futures and options
 - Multi-currency bonds
 - Cross-border stock listings
 - International mutual funds

WHAT IS A MULTINATIONAL CORPORATION?

- A firm that has incorporated on one country and has production and sales operations in several other countries.
- There are about 60,000 MNCs in the world.
- FDI by MNCs is also a major force driving globalization of the world economy.

TOP 10 WORLD CORPORATIONS (MARCH 2010)

Rank	Company	Country	Field
1	Wal-Mart Stores	United States	Retail
2	Royal Dutch Shell	Netherlands [†]	Petroleum
3	Exxon Mobil	United States	Petroleum
4	BP	United Kingdom	Petroleum
5	Toyota Motor	Japan	Automobiles
6	Japan Post Holdings	Japan	Diversified
7	Sinopec	China	Petroleum
8	State Grid	China	Power
9	AXA	France	Insurance
10	China National Petroleum	China	Petroleum

MNCs vs. DOMESTIC FIRMS

What makes financial management of MNCs more complicated than that of domestic firms?

Because of the differences in:

- Currency denominations
- Economic and legal systems
- Language and culture
- Role of governments
- Political risk
- Corporate governance

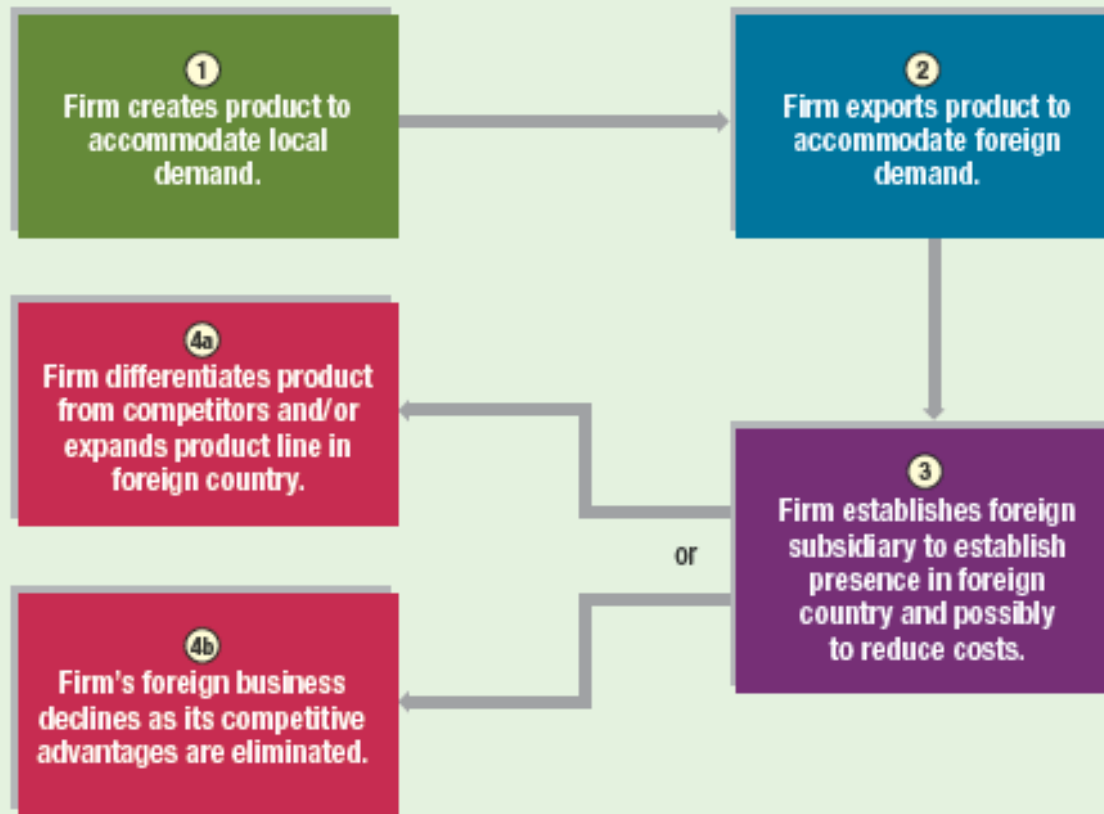
WHY DO FIRMS “GO GLOBAL”?

- To benefit from economies of scale
- To broaden their markets
- To seek raw materials
- To seek new technology
- To seek production efficiency
- To avoid political and regulatory hurdles
- To diversify

THEORIES EXPLAINING INTERNATIONAL EXPANSION OF BUSINESS

1. Theory of Comparative Advantage: specialization increases production efficiency.
2. Imperfect Markets Theory: factors of production are somewhat immobile providing incentive to seek out foreign opportunities.
3. Product Cycle Theory: as a firm matures, it recognizes opportunities outside its domestic market.

INTERNATIONAL PRODUCT LIFE CYCLES

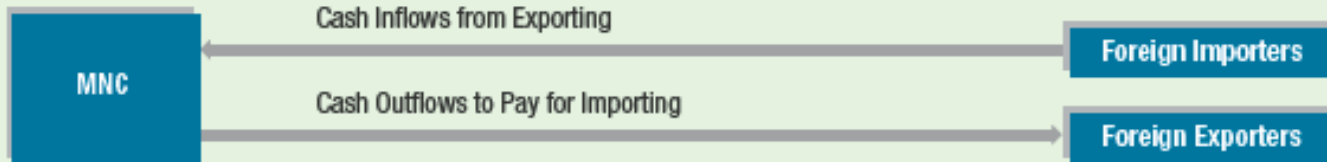


FORMS OF INTERNATIONAL BUSINESS ENGAGEMENT

1. International trade
2. Licensing
3. Franchising
4. Joint Ventures
5. Acquisitions of existing operations
6. Establishing new foreign subsidiaries

CASH FLOW DIAGRAMS FOR MNCs

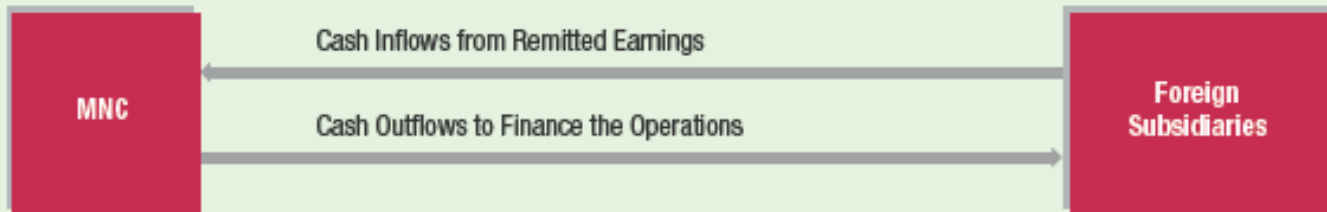
International Trade by the MNC



Licensing, Franchising, Joint Ventures by the MNC



Investment in Foreign Subsidiaries by the MNC



GOALS FOR INTERNATIONAL FINANCIAL MANAGEMENT

- To equip us with the “intellectual toolbox” to be an effective global manager
- But what goal should an effective global manager be working toward?
 - Maximization of shareholder wealth?
 - or
 - Other Goals?

MAXIMIZE SHAREHOLDER WEALTH

- Long accepted as a goal in the Anglo-Saxon countries, but complications arise.
 - Who are and where are the shareholders?
 - In what currency should we maximize their wealth?

FACING AGENCY PROBLEMS

- Principal-Agency Problem: Conflict of goals between managers and shareholders
 - Managers pursuing private interests
 - Empire building
 - Excessive risk taking
 - etc.
- Agency Costs: the costs of ensuring that managers maximize shareholder wealth

AGENCY COSTS

- Agency costs are normally larger for MNCs than purely domestic firms because:
 - 1) Monitoring managers of distant subsidiaries in foreign countries is more difficult
 - 2) Foreign subsidiary managers raised in different cultures may not follow uniform goals
 - 3) The sheer size of the larger MNCs

- Agency conflict and costs can be reduced by:
 - Incentive alignment
 - The board of directors
 - Corporate governance

WHO ELSE MIGHT NEED TO KNOW INTERNATIONAL FINANCIAL MANAGEMENT?

- Exporters/Importers
- Individuals or corporations that borrow or lend in foreign currencies (through banks or bond market)
- International portfolio investors
- Financial service providers (mainly banks)
- Financial regulators