FIN 6644

GLOBAL FINANCIAL STRATEGIES

Spring 2009

GENERAL INFORMATION

<table>
<thead>
<tr>
<th>Instructor: A. M. Parhizgari, Ph.D.</th>
<th>Phone: (305)348-3326</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor of Finance and International Business and Ingersoll-Rand Professor</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Office: RB 204-B</th>
<th>Fax: (305)348-4245</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Hours: M, 4:30-6:15, or by Appt.</td>
<td></td>
</tr>
</tbody>
</table>

Link to professor's site: [http://www.fiu.edu/~parhiz](http://www.fiu.edu/~parhiz)

E-mail: parhiz@fiu.edu

COURSE DESCRIPTION

Global Financial Strategies (FIN 6644) deals with the theoretical and empirical aspects of the strategic financial environment and management of firms that operate in a global business arena. In this regard, multinational enterprises (MNEs) / Transnational Corporations (TNCs) are of prime concern.

COURSE OBJECTIVES

In this course the participants will be able to develop a body of knowledge, practices, attitudes, and skills needed to make financial decisions for global enterprises. The course is a continuation of basic Corporate Finance or Financial Management (FIN 6428). It takes on the topics where Corporate Finance leaves off. Its aim, precisely, is two fold: (a) to take the topics of Corporate Finance to a global platform, and (b) to further expand upon those topics in line with the most recent developments in financial strategy and in business/economic practices that are global in nature. The course is a mix of about 70 percent
finance and 30 percent economics. Both the finance and economics components are heavily cast in the framework of strategy and decision making. Academics-for-academics sake is downplayed, if not fully replaced, by relevance, pragmatism, and financial/economics strategies that would comprise decision processes in a global environment.

**MAJOR & CURRICULUM OBJECTIVES TARGETED**

Major objectives targeted in this course.

1. Explore the international integration of financial markets and analyze implications for financial managers.

2. Identify and analyze derivative instruments and strategies used by global investors and corporations to hedge financial risks. Emphasis will be placed on: global dimensions of these instruments, identification of financial risk, and designing optimal risk management strategies.

Curriculum objectives targeted in this course.

1. **GLOBALIZATION**
   Apply knowledge on political, legal, economic, and cultural country differences to develop competitive strategies in foreign, regional, and global markets.

2. **CRITICAL THINKING**
   Apply critical thinking skills to complex business problems. This includes:
   - Analyzing complex business problems, particularly ill-structured ones (i.e., business problems with no “right answer”).
   - Identifying and evaluating relevant issues and information
   - Generating and evaluating possible solutions to the problems
   - Recommending solutions based on a well-reasoned rationale
   - Communicating your thought processes to others.

3. **ANALYTICAL THINKING**
   Use quantitative analytical skills to:
   - Identify and analyze material factors that are involved in business problems
   - Determine and apply relevant frameworks from Accounting, Finance, Decision Sciences, Marketing, and Management to address business problems
Determine and apply appropriate problem-solving techniques to business problems
Integrate knowledge across business disciplines to formulate decisions.

4. ETHICS
Demonstrate ethical understanding and reasoning abilities, including an understanding of the ethical responsibilities of organizations, by:
Recognizing ethical dilemmas
Evaluating how stakeholders will be affected by various possible solutions to ethical dilemmas
Making ethical decisions
Providing a rationale for your decisions using ethical schools of thought.

TEXTBOOK:

COURSEPACK:
This contains cases (see below), brief excerpts from a select number of professional articles, copy of slide presentations, solution to the recommended assignments, and other readings, if any. [CP, henceforth]

CASES:
The following cases are included in the coursepack (CP). For further details, please see “Case Synopsis” at the end of this syllabus.

- Managing Financial Risk. Lufthansa (Germany).
- Forecasting a Currency. Mexican Peso.
- Mexico’s Stock Exchange (IPC) vis-à-vis US Major Exchanges (DJ and NASDAQ).
- Latin American Currencies: Integration and Convergence.
- An FDI through a Bidding Process: Cementos Mexicanos (Cemex) in Indonesia.

ARTICLES:
Excerpts from a number of selected articles from professional journals/books. Please see “Course Organization” for details.
OTHER (recommended):

Recommended supplemental readings are not provided. At least the "International Financial" sections of one of the following:

- Business Week
- Barron's
- Wall Street Journal

TEACHING METHODOLOGY

This course is conducted on a mixed platform. It employs a text, four/five cases, a few professional articles, three knowledge-check quizzes, several problem assignments, and a few video presentations. The pedagogy is lectures interspersed with cases, discussions, analysis, and presentations in various forms.

Participants are expected to have studied the assigned material in advance. They have the option to work in groups on the cases and by themselves on other assignments. Each group is expected to be ready to discuss the assigned topics, including the cases, in the class. Furthermore, each group is expected to choose one of the cases, submit a written report on it, and present it to the participants in the class. These and other group related activities will be arranged in the first two sessions.

Rigorous review of the material and active participation in discussions and presentations by ALL are essential to the successful conduct of this course.

COURSE PREREQUISITES

Corporate Finance or Financial Management (FIN 6428) and some preliminary statistics.

For more information about prerequisites, click here.

COMMUNICATING WITH THE INSTRUCTOR

Please see above.

GRADING

<table>
<thead>
<tr>
<th>Course Requirements</th>
<th>Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases</td>
<td>30</td>
</tr>
</tbody>
</table>
There are four/five cases and three brief knowledge check quizzes. Cases are group projects, but Knowledge Check Quizzes are individual activities in the class. The weighing scheme is as follows:

- Class participation: 10% (or 10 points)
- Case write-up and its presentation: 30%
- Knowledge Check Quizzes: 60% (30 points each on only the highest TWO of the three Knowledge Check Quizzes. Absolutely NO make-ups on these quizzes, and no incompletes, please).

For dates, see “Course Organization”.

The grading scale is: A = 94 and up; A- = 90-93; B+ = 87-89; B = 83-86; B- = 80-82; C+ = 77-79; etc.

Case Write-Up and Its Presentation. It is a group project (maximum five participants in a group). The group is free to choose any ONE of the cases that are assigned, and is required to present it to the participants in the class. If more than one group chooses a case, presentation to the class will be shared. The group needs to submit either a written report on the case or a copy of its PPT presentation to the class (NOT both). The write-up is expected not to exceed a two-page, single-spaced report. This maximum does not apply to exhibits, graphs, and tables. The group’s PPT presentation to the class, if any, may constitute this write-up. In such a case, no write-up is required. The report/PPT file may be submitted in hard copy, or on a 3 1/2 floppy disk, or electronically via e-mail. The group is responsible to ensure that the e-mail will be sent out before its presentation begins.
in the class. Please note again that the case write-up (or PPT presentation) is due at or before the presentation time in class. I will return all the case write-ups with my comments interspersed throughout the write-ups. If the submission is via disk or e-mail, I will return it via e-mail.

Knowledge-Check Quizzes. Each quiz consists of a set of 10 to 20 very brief questions on the topics that are covered within the module of that quiz. The topics in these quizzes are NOT cumulative EXCEPT for the basic tools and the general concepts that run throughout the course. If there is a need, the solutions to the quizzes will be discussed in the sessions immediately following them. The highest TWO of the three Knowledge Check Quizzes will be selected for grading. There will be absolutely NO make-ups on any of these quizzes.

DISCUSSION

Please see case assignments and presentations above, and below.

ASSIGNMENTS

CASES:

The following cases are included in the coursepack (CP). For further details, please see “Case Synopsis” at the end of this syllabus.

- Managing Financial Risk. Lufthansa (Germany).
- Forecasting a Currency. Mexican Peso.
- Mexico’s Stock Exchange (IPC) vis-à-vis US Major Exchanges (DJ and NASDAQ).
- Latin American Currencies: Integration and Convergence.
- An FDI through a Bidding Process: Cementos Mexicanos (Cemex) in Indonesia.

RECOMMENDED ASSIGNMENTS:

See coursepack (CP) for the solutions of a subset of the following problems.

Some of these assignments will be discussed in class in sequential order according to the flow of the course material. These assignments are expected to be done in advance either in groups or individually. All groups are expected to be fully prepared.

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Problem/Mini-Case No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>4, 6, 7, 13, 14, 15</td>
</tr>
<tr>
<td>6</td>
<td>1, 2, 3, 5, 7, 13, 15, 16</td>
</tr>
<tr>
<td>7</td>
<td>1, 2, 3, 6, 7, 8</td>
</tr>
<tr>
<td>8</td>
<td>3, 5, 13, 19</td>
</tr>
</tbody>
</table>

The above recommended assignments include for the most part a select group of the end-of-the-chapter problems. To economize on our class time, the solutions to a subset of these problems will be provided in the coursepack. These problems may be done individually or in groups. I will not
collect your solutions. However, please note that these recommended assignments are very significant and are very crucial to your understanding of the course material.

RESEARCH PAPER

Please see cases above.

DISABILITY NOTICE

If you have a disability and need assistance, please contact the Disability Resource Center (University Park: GC190; 305-348-3532) (North Campus: WUC139, 305-919-5345). Upon contact, the Disability Resource Center will review your request and contact your professors or other personnel to make arrangements for appropriate modification and/or assistance.

RELIGIOUS HOLIDAYS

The University's policy on religious holy days as stated in the University Catalog and Student Handbook will be followed in this class. Any student may request to be excused from class to observe a religious holy day of his or her faith.

RULES, POLICIES, and ACADEMIC MISCONDUCT

Assignments from the text and other resources are listed below for each class session. Students are expected to be pace their learning according to the posted course assignments.

It is expected that interactive learning and teaching will enrich the learning experience of all students, and that each student will work in partnership with the professor to create a positive learning experience for all. Student engagement is a necessary condition for an effective learning experience, and includes contributions to debate and discussion (if any), positive interactive learning with others, and an enthusiastic attitude towards inquiry. Everyone is expected to be a positive contributor to the class learning community, and students are expected to share the responsibility of teaching each other.

Statement of Understanding between Professor and Student

Every student must respect the right of all to have an equitable opportunity to learn and honestly demonstrate the quality of their learning. Therefore, all students must adhere to a standard of academic conduct, demonstrating respect for themselves, their fellow students, and the educational mission of the University. As a student in the College of Business taking this class:
- I will not represent someone else’s work as my own
- I will not cheat, nor will I aid in another’s cheating
- I will be honest in my academic endeavors
- I understand that if I am found responsible for academic misconduct, I will be subject to the academic misconduct procedures and sanctions as outlined in the Student Handbook

Failure to adhere to the guidelines stated above may result in one of the following:

**Expulsion:** Permanent separation of the student from the University, preventing readmission to the institution. This sanction shall be recorded on the student's transcript.

**Suspension:** Temporary separation of the student from the University for a specific period of time.

Additionally the following two documents should be used by every student in business classes that require individual or group written assignments:

- Certification of Authorship Assignment Cover Page (Individual)
- Certification of Authorship Assignment Cover Page (Groups)

For details on the policy and procedure go to **ACADEMIC MISCONDUCT.** (Section 2.44)

**NOTE:** Intensive Auditing of the course will be conducted to prevent academic misconduct.

---

**EXPECTATION OF THIS COURSE**

Participants are expected to have studied the assigned material in advance. They have the option to work in groups on the cases and by themselves on other assignments. Each group is expected to be ready to discuss the assigned topics, including the cases, in the class. Furthermore, each group is expected to choose one of the cases, submit a written report on it, and present it to the participants in the class. These and other group related activities will be arranged in the first two sessions.

Rigorous review of the material and active participation in discussions and presentations by **ALL** are essential to the successful conduct of this course.

---

**COURSE CALENDAR**

**COURSE ORGANIZATION AND CALENDAR:**

*Note: The course is very much application oriented. However, to ensure that in the process we do not lose track of the basics, I have chosen to refer to the topics by their underlying concepts. These concepts may often have applications in a broader sense than in the area(s) under our considerations. For example, chapter 4 is titled “International Parity Conditions” in the book. In*
this syllabus I am referring to it as “Forecasting Foreign Exchange”. Can you guess why?

\[ ESM = Eiteman, Stonehill and Moffett. \]
\[ BD&L = Broad Discussion and Lecture. \]
\[ CP = Course Pack \]

\[ Note: Please bring in with you the relevant part(s) of the Course Pack, particularly the copy of slide presentations and cases. \]

\[ Sessions of January 6 throughout February 3 (Module 1) \]

I. On the Cutting Edge of Global Finance: Firms and Their Environment:
   a. From Bean-Counting to SAP. (BD&L).
   b. MNEs, TNCs, and Their Global Environment. (BD&L).
   c. Globalization! (BD&L).

II. The Environment of Global Finance and Business:
   a. Trade Flows, Competitiveness, and Elasticity
   b. Using Balance of Payments Data, ESM, Ch. 3.
   c. Global Monetary System, ESM, Ch. 2.

III. Currency Risk Management: Derivatives and Hedging Alternatives
   a. The Foreign Exchange Market, ESM, Ch. 6.
   b. Derivatives: Foreign Currency Futures and Options, ESM, Ch. 7, pp. 207-221, BD&L, and video presentation.
   c. Forecasting Currency Rates, ESM, Ch. 4.
   d.* Mini-Cases: Nos. 4, 6, 7, 13, 14, 15 from Chapter 4 (pp. 129-136), and 1, 2, 3, 5, 7, 13, 15, 16 from Chapter 6 (pp. 202-206).
   e. Knowledge Check Quiz No. 1 (February 3)

\[ Sessions of February 10 throughout March 10 (Module 2) \]

IV. Uncertainty, Global Financial Risk Management and Strategies
a. **Case Study:** Managing Financial Risk, Lufthansa (Germany). For further details, please see “*Case Synopsis*” at the end of this syllabus.

b. The Pillars of Foreign Exchange Exposure: Forecasting, Measurement and Management, ESM, Chs. 8 (main topic), 9 and 10.


d. Further Readings/References:


V. **Global Currency Risk Management and Market Efficiency**

   a. **Case Study:** Forecasting a Currency, Mexican Peso. For further details, please see “*Case Synopsis*” at the end of this syllabus.

   b. The Efficiency Issue(s), BD&L and video presentation.

   c. Yes, Yes, Yes! The Theories Hold and the Market is Efficient! BD&L. (Please see the results of one research in the CP).

   d. No, No, No! They Don't! BD&L. (Please see examples in the CP).

   e. **Case Study:** Latin American Currencies: Integration and Convergence. For further details, please see “*Case Synopsis*” at the end of this syllabus.

   f. Further Readings/References:


VI. **Long-Run Aspects of Global Debt and Equity**

   a. **Case Study:** Mexico’s Stock Exchange (IPC) vis-à-vis US Major Exchanges (DJ and NASDAQ). For further details, please see “*Case Synopsis*” at the end of this syllabus.
b. Global Equity Markets and Sourcing Equity, ESM, Ch. 12.


d. Further Readings/References:


e. Knowledge Check Quiz No. 2 (March 10).

Sessions of March 24 throughout April 14 (Module 3)

VII. Long-Run Global Investment Decisions: Strategies in Project Selection, Investment Protection, and Risk Management

a. Case Study: An FDI through a Bidding Process: Cementos Mexicanos (Cemex) in Indonesia. For further details, please see “Case Synopsis” at the end of this syllabus. Note: This is a case, NOT an end of the chapter problem. ESM, pp. 471-488.

b. The Foreign Investment Decision, ESM, Ch. 16.

c. Multinational Capital Budgeting, ESM, Ch. 18.

d. Global Cost of Capital, ESM, Ch. 11.

e. Political Risk Management, ESM, BD&L and Ch. 16.

f. Further Readings/References:

There is a vast body of both empirical and theoretical literature on the above areas, especially on FDI. For a survey article see: A. M. Parhizgari, “…..”, FIU, 1999, Manuscript. This item is not a required reading.

VIII. Sovereign (External) Debts

a. The International Debt Crisis and the Current Status of the Sovereign Debts. BD&L.

b. Further Readings/References:


IX. **Export/Imports**

   a. Functions, System, and Financing, ESM, Ch. 20.

X. **Global Mergers and Acquisitions**

   a. M&As, Lecture only
   
   b. Video Presentation.
   
   c. **Knowledge Check Quiz No. 3 (April 14).** Note: You may have the option NOT to take this quiz. See the section on “Exams, Grading ...” on page 3.

**ADDITIONAL INFORMATION**

**OTHER SUPPORTING ITEMS:**

**Solution Manual:** Please see the Course Pack. Selected solutions from the manual are available to registered students.

**Book Web Site:** [http://www.aw.com/eiteman](http://www.aw.com/eiteman)

**Finance Links:** For over 2500 web’s best resources on finance, business, e-business and 1000+ articles, see: [http://www.fiu.edu/~parhiz/links/index.html](http://www.fiu.edu/~parhiz/links/index.html)

**Course Web Site:** The URL for the WEB site of this course will be provided in the first session of the class.

**SCHEDULE OF CASES AND PRESENTATIONS IN BRIEF:**

(The dates and groups will be determined after the class meets)

<table>
<thead>
<tr>
<th>DATES ( )**</th>
<th>CASES &amp; PRESENTATIONS TO CLASS*</th>
<th>GROUPS**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Case:</strong> Lufthansa (Germany)</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Case:</strong> Forecasting Mexican Peso</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Case:</strong> Mexico’s Stock Exchange</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Case:</strong> Latin American Currencies</td>
<td></td>
</tr>
</tbody>
</table>
CASE SYNOPSES:

Case synopses follow. See also the table on “Schedule in Brief” on p. 5.

1. **Lufthansa**: Lufthansa (Germany) hedges the currency exposure stemming from the purchase of twenty 737 Boeing jets from the United States. Source: ESM, pp. 278-279.

2. **Forecasting a Currency. Mexican Peso**. Craze-AMP, a global investment outfit is anxious, as a matter of fact is under a lot of pressure, to forecast short-term Mexican Peso. It finds it mind boggling when its Board of Directors mandates to consider a host of complex factors in its forecast. These factors include, but are not limited to, Mexico’s domestic economic conditions, its global linkages with the rest of the world, its policy and history of currency management and devaluation, and a number of other silent but real Mexican factors, i.e., its political environment, its pending presidential elections, its global commitments (NAFTA), etc. Source: A. M. Parhizgari. Please see the Course Pack.


5. Cementos Mexicanos (Cemex): Through a bidding process, Cemex's proposal is accepted in the first round by the Indonesian government. In the second round, a restructuring of this bid has become eminent in light of fierce competition with other bidders. Hector Medina, Cemex's vice president for finance, and his crew have only a few weeks to finalize their position. Source: ESM. Please see the Course Pack.

* = Sequential coverage in accordance with the flow of topics covered. See "Course Organization" below.

** = These will be arranged during the first one or two sessions.

Visit Dr. Parhizgari’s Site at

www.fiu.edu/~parhiz

AMP/S6644S09, 1/5/09