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BFIN 473.01: Multinational Financial Management

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Syllabus BFIN 473 Multinational Finance and FDI
Spring 2015
Accounting and Finance
School of Business Administration
University of Montana

Professor: Richard D. Erb, Ph.D.

Class Time: 11:10 – 12:30; Tuesday and Thursday

Class Room: GBB 222

Office Room: GBB 348.2

Office Hours: T-Th 9:00 – 10:30 pm or a mutually convenient time

Email: richard.erb@business.umt.edu (best way to reach me)

Multinational Finance and FDI

Students taking this senior level course will have studied aspects of finance within the confines of a single country's national financial system. More than likely the US financial system was used as the reference system. Our study of multinational finance will encompass:

- the national financial system not only of the United States but also the national financial systems of other countries
- and also the cross border financial linkages among national financial systems

There are many types of cross border financial transactions including commercial bank loans, investments in foreign equities, investments in foreign bonds, investments in foreign money market instruments and investments in foreign financial derivatives. A wide range of financial institutions conduct financial transactions for example commercial banks, mutual fund companies, insurance companies, pension funds and government investment funds.

Foreign direct investments (FDI), made by companies that establish operations in one or more foreign countries, is another major category of cross border financial flows. Companies that engage in FDI are called transnational companies (TNCs) or alternatively, multinational companies (MNCs).

A transnational company has access to a wide range of financial instruments and financing sources including:

- a company's home based national financial system
- national financial systems in the foreign countries where it operates
- international financial centers (e. g. London, New York, Hong Kong)

Because TNCs enjoy a wide range of financing possibilities, their financing decisions are more complex. For one thing, because TNCs operate in different countries with different currencies, TNC financing decisions need to take into account exchange rate factors. TNC financing decisions also need to take into account that national financial systems differ in many ways. Today such decisions are even more complicated because of the disruptions and changes taking place within and between national financial systems as a result of technological changes and the 2008 global financial crisis.

Course objectives

One objective for this course is to provide a broad grounding in the financial and foreign currency skills necessary for effectively contributing to a company's decision making in the following areas:

Financial decisions, including for example:

- Operational financial decisions, including cash management, short term financing operations and hedging interest rate and currency risks
- Strategic financial decisions regarding the medium to long term financing of a company's global business activities
- Marketing and production decisions, including for example:
 - Hedging purchase and sales commitments
 - Pricing decisions
 - Input purchasing decisions
- Strategic investment decisions, including for example:
 - decisions regarding which national markets to enter
 - decisions regarding where and how to establish production facilities around the globe

Another objective of this course is to provide a grounding in the ways that financial and currency developments interact with broader economic, institutional and political developments.

This course is designed to be of practical use not only to finance majors but also those with a broad interest in international business including accounting, marketing, production, and management activities. Those who plan to work for a domestic business also will benefit because there are very few purely domestic businesses that are not affected by global financial and currency developments.

For those students with an interest in public service, most of the financial and foreign currency skills that I plan to cover also will be valuable in other contexts, including for example central banks and government treasury departments, financial regulatory bodies and government lending agencies.

Skills

This course will emphasize the development of a number of skills:

- Analytical skills, including ability to:
 - analyze the factors that influence the behavior of financial and currency markets
 - calculate and analyze the impact of changes in exchange rates and other financial variables on company financial and nonfinancial operations
 - analyze the interrelationships among financial and currency markets and draw implications for company financing and hedging decisions
- Research skills, including the ability to:
 - Understand, synthesize and apply analyses and information from primary sources, e. g. central banks, finance ministries, intergovernmental financial institutions (IMF, BIS)
 - Utilize financial and currency market information sources, including for example financial news sources like the Financial Times and Reuters

- Communication skills, including the ability to:
 - briefly summarize the main conclusions of your readings and analysis
- Information management, including the ability to:
 - organize information so that it can be passed on to someone else for immediate use

Course Activities and Grading (Percentages are approximate; requirements subject to change and I will use the +/- grade method.)

1. **Quizzes** (30%) I frequently will give short quizzes at the beginning of a class. Quizzes will be preannounced and cover recent subjects. Answers to quizzes will be posted on Moodle and discussed in class.
2. **Final Exam** (30%) Final exam questions will cover the entire course. Approximately 50% will involve problem solving.
3. **Reports** (30%) Each member of the class will be assigned a country to study with a particular emphasis on the country's financial system and exchange rate regime. During the semester you will be asked to submit brief reports on various subjects including for example the country's exchange rate policies and the country's central bank policies.

At the end of the semester you will submit a brief report with your final assessment of the country's financial system. Reports will be judged on a number of factors including clarity and brevity of writing, quality of your analysis and the quality and breadth of your references.

Reports not submitted on due date without prior notice will be subject to penalty.

4. **Homework** (5%) I will periodically assign homework problems to give me and you an opportunity to see what is being learned. Unless I say otherwise, I will not grade answers but the grade will be based on whether a homework assignment is submitted on time and the effort made when answering questions. Answers will be posted on Moodle for self-grading and class discussion.
5. **Class participation** (+/- 5%)
 - Positive points: arrive on time; be prepared by having read reading assignments and followed market developments; ask questions and make comments; correct my mistakes; bring ideas to class; volunteer comments on your country or global financial developments; meet me during office hours at least once during semester.
 - Negative points: Things that really irritate me and result in negative points: talking to neighbors; leaving class without alerting me in advance or unless there is an emergency; playing games and accessing non class related material on computer (always noticed); late arrivals; absence from class without prior or ex-post explanation; copying neighbor's work; not seeing me when you are having difficulties with the course

Readings, Homework Assignments and other Information Sources

- At the start of each class I will circulate an agenda summarizing reading assignments, homework assignments, major country and financial market events and an outline of subjects to be covered during class.
- I will provide on Moodle background notes and articles on most topics covered during the course. Bring notes to class when a topic is to be discussed.
- I will assign readings from primary information and research sources
- Students are required to sign up as a “Registered User” (free) on the Financial Times web site. Sign up is available at www.membership.ft.com. As a registered user you will have free access for up to 8 articles per month. I will assign up to 4 articles a month.
- Students also will be expected to follow financial and exchange market developments on a regular basis using Reuters.com (there is no charge for Reuters) and other high quality information sources including for example the Wall Street Journal (WSJ.com) and Bloomberg.com
 - You will be expected to follow and discuss in class financial and currency developments in China, Japan, the United States and the Euro area.
- I highly recommend buying Barron’s Dictionary of Finance and Investment latest edition (8th) available through Amazon, \$15

Prerequisites: Students MUST have successfully achieved a junior standing in business and completed FIN 322 with a C or better and SHOULD have completed Mgmt 368. Students not meeting the FIN 322 prerequisite will receive a grade of F regardless of class scores. This may also result in forfeiture of fees paid. Students are strongly encouraged to review basic finance and economics material prior to this course.

Class attendance is required. Your attendance and participation are essential to an understanding of the course material. Students who do not attend class on a regular basis generally earn much lower grades. Approval for absence must be sought in advance (e.g. for school-sponsored events). Work, transportation and vacation will not normally result in an excused absence. Documented emergency situations will normally be excused, but they must be cleared as soon as possible.

Quizzes and Final Exam If you absolutely must miss a quiz or the final exam, you must notify me prior to the quiz and provide a written justification (by email is ok) for your absence (e.g. a school-sponsored event). In the event of an excused absence or absence caused by a documented emergency, either the remaining quizzes will be weighted more heavily or you will take a make-up quiz. No student may miss more than one quiz and pass the course; all students must be present at the final test.

- Hand calculators will be needed during quizzes and final exam. (Note: The A&F Department requires all students to use the TI BAI+ calculator in ACTG and BFIN courses.)
- Computers, cell phones and other electronic communication devices will not be allowed.

Add/Drop Dates

- February __: last day to drop without a petition (instructor, advisor, assoc dean must sign)
Note: it has been the practice of the A&F department not to sign petitions after 9 weeks into a semester unless there is a really good reason.

Incompletes are not given for failing grades

Disability Policy

Students with disabilities may request reasonable modifications by contacting me. The University of Montana assures equal access to instruction through collaboration between students with disabilities, instructors, and Disability Services for Students (DSS). “Reasonable” means the University permits no fundamental alterations of academic standards or retroactive modifications. For more information, please consult <http://www.umt.edu/disability>.

Academic integrity

Integrity and honesty are hallmarks of the accounting profession. It is your duty to abide by the University’s academic policies, and it is the instructor’s duty to enforce those policies. Cheating of any sort will not be tolerated. Cheating, failure to follow instructions, and/or failure to follow course policies may result in a reduced grade or a failing grade at the instructor’s option. The following message about academic integrity comes from the Provost’s office: *“All students must practice academic honesty. Academic misconduct is subject to an academic penalty by the course instructor and/or a disciplinary sanction by the University. All students need to be familiar with the Student Conduct Code. The Code is available for review online at http://life.umt.edu/vpsa/student_conduct.php.”*

School of Business Administration Mission Statement and Assurance of Learning

The University of Montana’s School of Business Administration is a collegial learning community dedicated to the teaching, exploration, and application of the knowledge and skills necessary to succeed in a competitive marketplace.

As part of our assessment process and assurance-of-learning standards, the School of Business Administration has adopted the following learning goals for our undergraduate students:

Learning Goal 1: SoBA graduates will possess fundamental business knowledge.

Learning Goal 2: SoBA graduates will be able to integrate business knowledge.

Learning Goal 3: SoBA graduates will be effective communicators.

Learning Goal 4: SoBA graduates will possess problem solving skills.

Learning Goal 5: SoBA graduates will have an ethical awareness.

Learning Goal 6: SoBA graduates will be proficient users of technology.

Learning Goal 7: SoBA graduates will understand the global business environment in which they operate.