

**Brandeis University**  
**International Business School**  
**Winter / Spring 2007**

Dr. John W. Ballantine, Jr.  
978 371-2652 (home)

International Corporate Finance  
Finance 202a3 – Lee Hall

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**Class meetings:**        Mondays 6:40-9:15 p.m. (as scheduled), starting January 22

**Office hours:**        after or before class or by appointment in office Sachar 107-13

**Course description:** The primary objective of this class is to introduce students to the basic concepts and applications of corporate finance in the global environment: valuation, cash flow analysis, and investment and financing decisions. How companies make basic finance decisions. We will emphasize the theory and the mechanics of international corporate finance through discussion of current business articles, review of problems in the texts, and case analysis. The first half of the course will cover the standard theory and applications of corporate finance. The second part of the course will put the corporate decision making process into an international setting. The Ross Westerfield text covers the first half of the course, and the Eiteman text focuses on the international corporate finance.

We will be covering a great deal of material in the course as suggested by the textbook assignments and problems. Students are expected to keep up with the assignments, otherwise the classes will be less valuable. The TA will review problem sets with you on a periodic, as needed, basis. thea@brandeis.edu (one or two Friday evening review sessions)

**Course material:**

Ross, Westerfield and Jaffee, Corporate Finance 6<sup>th</sup> edition , McGraw-Hill  
Eiteman, Stonehill, Moffett, Multinational Business Finance, 10<sup>th</sup> Edition, Addison-Wesley, 2004.  
Course Packet. Contains cases

**Grading:** Course grades will determined according to the following schedule:

Problem sets	20%
Class Participation	10%
Cases	15% (take home)
Quizzes,	20% (take home)
Final Exam	35%

**Teaching Assistant:** Thea Kohreidze thea@brandeis.edu. Email her or schedule a time to get together. She will grade and review the problem sets.

**Academic honesty:** All students are expected follow the spirit and the letter of the Brandeis policies on academic honesty. You are encouraged to work in groups, but submit your own work for individual assignments. If you have questions or concerns ask the professor or TA for assistance.

**Course requirements:** Students are expected to have taken Financial Theory or its equivalent, Accounting, and Global economic environment. This is a **core** course that builds upon the knowledge and practice that you gained in other course work. Class sessions will be devoted to a short article discussion, lecture on financial theory, problem review and case discussion. Assigned work: 5 problem sets, 3 cases, 3 quizzes. It is expected that students will come prepared to class, ready to answer the assigned problems, and prepared to discuss the case material.

**Articles:** Periodically we will begin the class with a short discussion of a current article from the business press that will be passed out at the beginning of the class (10-15 minute discussion before formal class begins). Students are encouraged to bring articles (with copies) for class discussion. The purpose of the discussion is to apply our evolving knowledge of finance to current business issues. **Think.**

**Problem sets:** There will be bi-weekly problem sets (5 out of 6) that will be due at the beginning of each class (see schedule). You may work on the problem sets in groups, but you must hand in your own work. The problem sets will be graded by the TA; you are encouraged to meet with the TA if you have any questions. Late problem sets will be marked down, no exceptions. The problem sets help you learn the mechanics.

**Lecture, readings, problems:** The purpose of the lectures and readings is to provide students with theories, tools, and concepts that are used in the practice of finance. Most of the material is covered in the texts, but there are a couple supplemental readings in the course packet.

In any class there may be one or two short lectures: the first reviewing the material under discussion and relevant to the case and the second pertaining to the next week's assignment (usually at the end of the class). Lectures emphasize the intuition of the financial concepts; the mechanics are covered in the text and assigned problem .

**Cases:** We will have five outside cases that are provided in the course packet, otherwise students are expected to prepare the cases / extended problems in the text. We will use the cases to examine the decision making process of managers and to review the mechanics of corporate finance.

**Case write-up:** Students are required to prepare a two – three page case analysis with exhibits on three of the assigned cases. I will volunteer 5 or 6 students to prepare the case analysis before the next class -- they will be expected to lead the discussion. The case analysis should be a creative, critical, and brief analysis of the financial issues posed in the case. The case write-up will be due before the scheduled class discussion.

**Exams, quizzes:** There will be four quizzes (3 out of 4 due) and a final exam. The quizzes will be take-home and the final will be also a take-home exam. I may have a quick problem in class to make sure that we are keeping up with the material

**Class participation:** Regular preparation of assigned readings, class attendance, and participation in class discussions are required. *Students who are unable to attend class for any reason are expected to call or notify me of their absence prior to the class.*

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<b>class / date</b>	<b>Topic</b>	<b>Readings</b>	<b>Case / Problems</b>	<b>Issues / Questions / problems sets</b>
1. <u>January 22</u>  <ul style="list-style-type: none"> <li>Financial Analysis</li> <li>Present value</li> <li>Valuation</li> </ul>	<b>Introduction, Requirements &amp; Review</b>	Ross, Westerfield, Jaffee (RWJ), chapters 1-5  Stern: “Earnings don’t matter” “Market values 2007 ??”	Problems: Chp 4.3,6,11,12,15,22,24,28,30,33,39,43; Chp 5.2,4,6,13,15,19,24,25,28,30,33,39,43	<ul style="list-style-type: none"> <li>PV, NPV</li> <li>Value bond and stocks</li> <li>Perpetuities, PEs</li> <li>Stock market value</li> </ul>
2. <u>January 29</u>  <ul style="list-style-type: none"> <li>Risk / Return, Capm</li> <li>IRR, NPV</li> <li>Valuation, DCF</li> </ul>	<b>Capital Budgeting</b>	RWJ chapters 6-8	Problems: 6.1,6,8,10,18,19 7.3,5,9,17,21 8.8,10,13	<b>Work on Problem set 1:</b> <u>any 4</u> from chap 4 and <u>any 4</u> from chap 5 for a total of <b>8 problems</b>
3. <u>January 31 Wednesday</u>  <ul style="list-style-type: none"> <li>Cost of Capital</li> <li>WACC</li> <li><b>Problem set 1 due</b></li> </ul>	<b>Risk Return, WACC</b>	RWJ 9,10,12	<b>Pblm 1, QUIZ 1</b> (take home), Problems: 9.1,2,9,11,12,16,17 10.3,5,7,21,31,32 12.2,3,9,12,13	<b>Problem set 1 due:</b> any 4 from chap 4 and any 4 from chap 5 for a total of <b>8 problems</b>  <b>Look at Problem set 2:</b> 4 from chap 6, any 4 from chap 7, any 2 from chap 8. <b>total 10</b>
4. <u>February 5</u>  <ul style="list-style-type: none"> <li>Capital budgeting</li> <li>WACC</li> <li>Value</li> <li>Case discussion</li> <li><b>Problem set 2 due</b></li> </ul>	<b>Review</b>          <b>Capital structure theory - intro</b>	RWJ 1-12          RWJ 13-15	<b>Pblm 2 due, Quiz1</b>  <b>Pepsi discussion</b>  Problems: 13.5-7,11,12,16	<b>Problem set 2:</b> any 4 from chap 6, any 4 from chap 7, any 2 from chap 8. <b>total 10</b>  <b>Pepsi case report 1 due on Feb 16<sup>th</sup> Friday</b> <ul style="list-style-type: none"> <li>Divisional cost of capital</li> <li>Weighted Average Cost of Capital WACC</li> <li>Corporate cost of Capital; Hurdle rates.</li> <li>Estimating value of companies.</li> <li>Does Value = price?</li> </ul> How has PepsiCo performed over the past 10 years. Created value? What are the business units’ cost of capital? How do these compare to the corporate cost of capital? What are the dangers of using the corporate cost of capital at division levels?
5. <u>Feb 12</u>  <ul style="list-style-type: none"> <li>Capital Structure theory</li> <li>Optimal, Pecking order</li> <li><b>Quiz 1 and/or case due Friday Feb 12 &amp; 16</b></li> </ul>	<b>Capital Structure Theory</b>	RWJ 13-16	<b>Pepsi case due</b> Problems: 13.5-7,11,12,16 15.2,4,5,8; 16.1,11,12,13,18	WACC and Pepsi cost of capital...Continue discussion The judgements of capital budgeting. Capital structure theory

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<b>class / date</b>	<b>Topic</b>	<b>Readings</b>	<b>Case / Problems</b>	<b>Issues / Questions / problems sets</b>
<b><u>Break Feb 19-25</u></b>		<b>Break Feb 19-25</b>		
6. <u>Feb. 26</u> <ul style="list-style-type: none"> <li>Capital Structure theory</li> <li>Case, Dividends</li> <li>Does it matter?</li> </ul>	<b>Capital Structure, Dividends</b>	RWJ 17,18	QUIZ 2 (take home) <b>FPL Dividends</b>  Problems: 18.3-13	<b>Problem set 3:</b> any 2 from chp 9, any 2 from chp 10, any 2 from chp 12. <b>Total 6</b>  Dividends, why buyback? Other options, expectations of shareholders.
7. <u>March 5</u> <ul style="list-style-type: none"> <li>Capital Structure</li> <li><b>Case discussion</b></li> <li><b>Quiz 2 due; and problem set if possible</b></li> </ul>	<b>Capital Structure</b>	RWJ 13-18	<b>Quiz 2, Pblm 3 due</b>  <b>Cox Communications American Home Products</b>	<u>Cox</u> , how finance? D/E?  <u>American home</u> What D/E, why and does it matter?
8. <u>March 12</u> <ul style="list-style-type: none"> <li>Leasing</li> <li>LBOs, debt</li> <li>International markets, finance</li> <li><b>problem 3 and/or 4</b></li> </ul>	<b>Leasing, long term financing</b>  <b><u>International Finance Introduction</u></b>	RWJ 19-21	<b>Problem set 4 or Case due following week</b>  Problems: 21.3,7,9	<b>Problem set 4:</b> any 3 from chp 13, 3 from 15, and 3 from 16. <b>Total 9</b> How much are you paying for your car lease?
International		International		
9. <u>March 19</u> <ul style="list-style-type: none"> <li>Currency markets</li> <li>FX rates</li> <li>Parity conditions, BOP</li> <li><b>Case 2 due or problem 4 set</b></li> </ul>	<b>INTERNATIONAL FINANCE</b>	<b>Eiteman, Stonehill, Moffett (ES&amp;M) chapters 1-7</b>	QUIZ 3 (take home) Problems: 4.2-7; 5.3-8 6.5-8; 7.3-7	Value, Wacc, LBO, Strategy, International markets.  Fx rate determination, calculations, Price Parity conditions, IR, Fx
10. <u>March 26</u> <ul style="list-style-type: none"> <li>transaction exposure</li> <li>operating exposure</li> <li>Translation exposure</li> <li>Interest rate exposure</li> <li><b>Problem set 5 due</b></li> </ul>	<b>Transaction Exposure</b>  <b>Translation Exposure</b>	(ES&M) 8-10	<b>Quiz 3, take home</b>  Problems: 8.3-7, 11 9.6-10 10. 5-10 “Toyota Operating Exposure 9”	<b>Problem set 5:</b> any two or three from each chapter 4, 5, 6, 7 <b>Total 12</b>  Discuss Toyota’s operating strategy and issues.

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<b>class / date</b>	<b>Topic</b>	<b>Readings</b>	<b>Case / Problems</b>	<b>Issues / Questions / problems sets</b>
<b>Easter / Passover break April 2 – 10</b>		<b>BREAK</b>		
11 <u>April 16</u> <ul style="list-style-type: none"> <li>FX, operating exposure</li> <li>Cost of capital, CAPM</li> <li>Financing D, E</li> <li><b>Quiz 3 due</b></li> </ul>	<b>Cost of Capital, D &amp;E</b>	(ES&M) 10, 11-13	<b>Problem set 5 due</b>  Problems: 11.2-6 12.2-5 13. 4-7	Review, Fx and international exposure. Cost of capital in uncertainty and investment. How good are the decision models in imperfect markets? Capital market efficient?
12 <u>April 23</u> <ul style="list-style-type: none"> <li>Debt Equity</li> <li>Cost of Capital,</li> <li><b>Case write-up 3</b></li> </ul>	<b>Financing the global firm</b>	(ES&M) 13-16	Quiz 4 take home (optional) <b>Grand Metropolitan Case</b> Problems: 14.3-6; 15.1-3	<u>Grand Met. case write-up</u> : Derive cost of capital for Grand Met in Lbs. What are corporate and business level WACCs. LOBs, \$\$? What discount rates should Grand Met use?
13 <u>April 30</u> <ul style="list-style-type: none"> <li>FDI</li> <li>capital budget</li> <li><b>QUIZ 4, optional, or problem set 6</b></li> </ul>	<b>Investment, International capital budgeting</b>	(ES&M) 16-19	<b>QUIZ 4, optional case due</b> Problems: 18. 2-5 Cemex (18)	<b>Problem set 6 (optional)</b> : any two-three from chapters 8-14 for a <u>total of 10</u> .
<u>May 4 –11: exams (take home)</u>	<b>Final Exam Take home</b>	<b>Final Exam</b>	<b>Final Exam</b>	<b>Final Exam</b>