

# **FIN 686: International Financial Management**

## **Finance Specialization**

*Credits: 3  
Lecture Hours: 48*

### **COURSE OBJECTIVE**

The main purpose of this course is to provide an understanding of the framework for corporate financial decision-making in a multinational context. The course also intends to introduce various risks and management strategies associated with international finance.

### **COURSE DESCRIPTION**

Companies operating globally are different from their domestic counterparts due to their exposure to foreign exchange fluctuations, political risks, etc. To address these realities, the course begins with a background of globalization, multinational firms and international monetary system. Then the course moves onto the balance of payment, foreign exchange markets, the determination of exchange rates along with international parity conditions. It further addresses foreign exchange exposures – transaction, operating and translation. Next, the core of financial management – capital budgeting, capital structure including the cost of capital and multinational cash management and international trade financing are covered. Finally, the course covers foreign direct investment and associated risk.

### **Course Details**

#### **Unit 1: Globalization and the Multinational Firm**

**LH 3**

Concept and goals of international financial management; Globalization of the world economy: major trend and development; International business and rise of multinational corporations; and Difference between international financial management and domestic financial management.

#### **Unit 2: International Monetary System**

**LH 4**

Evolution of international monetary system: bimetallism, classical gold standard, inter-war period, Bretton Woods system and flexible exchange rate regime; the Current exchange rate arrangements; Exchange rate regime in Nepal; European monetary system and Asian currency crisis.

#### **Unit 3: Balance of Payments**

**LH 3**

Concept and importance; Balance of payment accounting: the current account, capital account and official reserve account; the Balance-of-payment identity; and Balance of payment of Nepal: present status of different accounts and trends.

#### **Unit 4: Foreign Exchange Market and Foreign Exchange Rate Determination**

**LH 9**

Foreign exchange market: functions and structure; the Spot market—the spot rate quotations, cross-exchange rate quotations, and the bid-ask spread; the Forward markets—forward quotations, long and short forward rate positions, non-deliverable forward contracts, forward cross-exchange rates, and forward premium; Interest rate parity—conditions, covered interest arbitrage, interest rate parity and exchange rate determination; Purchasing power parity-and exchange rate determination; and Fisher effects and approaches to forecasting exchange rates.

**Unit 5: Foreign Exchange Exposure****LH 10**

Types of foreign exchange exposure; Management of transaction exposure: hedging foreign currency receivables—forward market hedging, money market hedge, options market hedge; Hedging foreign currency payables--money market instruments, forward contract, and currency options contracts; Cross-hedging minor currency exposures; Hedging contingent exposures; Hedging recurrent exposure with currency swap contract; Hedging via lead and lag ; Exposure netting; Concept and measurement of economic exposures, determinants of operating exposure; Managing operating exposure; Overview of translation exposure; Methods of translation, and management of translation exposure.

**Unit 6: Foreign Direct Investment and Cross-border Acquisitions****LH 3**

Reasons and benefits of FDI; Cross-border mergers and acquisitions; and Political risk and foreign direct investment.

**Unit 7: International Capital Structure and Cost of Capital****LH 4**

Cost of capital, cost of capital in segmented versus integrated markets; Cost of capital in different countries; Cross-border listings of stocks; and Financial structures of subsidiaries.

**Unit 8: International Capital Budgeting****LH 6**

Review of domestic capital budgeting; the Adjusted present value model; Capital budgeting from the parent firm's perspective; and Risk adjustment in capital budgeting analysis.

**Unit 9: Multinational Cash Management and International Trade Finance****LH 6**

Management of international cash balance; Bilateral netting of internal and external cash flows; Reduction in precautionary cash balance; a Typical foreign trade transaction; Forfeiting; Government assisting in exporting; Counter trade and trade financing practice in Nepal.

**BASIC READINGS**

1. Eun, C. S. & Bruce G. R. (2015) *International financial management*. New York: McGraw-Hill Education.
2. Eiteman, D. K. Arthur I. S. Michael H. M, & Pandey, A. *Multinational business finance*. Delhi: Pearson Education.

**REFERENCES**

1. Madura, J. (2015). *International financial management*. Singapore: Thomson South-Western
2. Shapiro, A. C. (2015). *Multinational financial management*. New Delhi: Wiley India.