

# Business Finance 4255

## Spring 2024

4962 MW: 5:30-6:50

Schoenbaum Hall 230

# International Finance



### **Instructor:**

Dr. K. Doroodian

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Born in 1952, Professor Doroodian received his Bachelor Degree in 1975, Master's Degree in 1977 from Shiraz University and his Ph.D. in 1981 from the [University of Oregon](#). All three degrees are in Economics and his area of specialization is International Trade and Finance.

After graduation, he taught economic courses at [Portland State University](#) as an adjunct Professor for one year. He then joined the Department of Economics of [Ohio University](#) in 1982 and was there through December 2022. While at Ohio University, he taught courses at undergraduate and graduate levels. They included international economics and financial markets, international finance, mathematical economics, macroeconomics and business fluctuations, managerial economics, among others. He was nominated two times for the Presidential Teaching Award.

Professor Doroodian is the founder of the Master of Financial Economics (MFE); a CFA based curriculum, launched in June 2000. From 1991 through 2020 he served as the Graduate Director of MA in economics, and from 2000 through 2021 he served as the Graduate Director of the MFE program. He has published numerous scholarly articles in professional journals and has made numerous presentations in various professional conferences.

## Course Description

This course provides the foundation of international finance for multinational corporations (MNCs) and how they can capitalize on international opportunities to maximize the value of the firm. The financial managers must be able to evaluate the international environment, recognize opportunities, implement strategies, assess exposure to risk, and manage that risk. The MNCs most capable of responding to changes in the international financial environment will be rewarded with higher profits.

## Learning Objectives

This course is divided in four modules.

### Module 1 – Balance of Payments and Exchange Rate Behavior

At the end of this module, you should be able to:

- Identify the key components of the balance of payments (BOP).
- Explain the growth in international trade activity over time.
- Discuss how international trade flows are influenced by economic and other factors.
- Explain how international capital flows are influenced by country characteristics.
- Identify the agencies that facilitate the international flow of funds.
- Explain the U.S. dollar as a reserve currency and its Implications for the United States.
- Understand the difference between nominal exchange rate and real exchange rate
- Discuss the potential for cryptocurrencies, Yuan, and the BRICS currency to lower the dollar's status as the world reserve currency.
- Explain different types of exchange rate regimes.
- Identify the means that governments can use to influence exchange rate movements.
- Explain how international exchange arbitrage and interest arbitrage work.
- Explain the significance of the interest rate parity and the exchange rate parity.
- Describe how interest rate differential between any two countries can influence the forward exchange rate movements.
- Explain how inflation differential between any two countries affect the exchange rate of their currencies.
- Explain the basics of currency futures and options.

### Module 2 – Exchange Rate Risk Management

This module builds on the knowledge gained in module 1. At the end of this module, you should be able to:

- Explain how corporate financial managers can make sound decisions when facing exchange rate risks.
- Distinguish various forecasting techniques that available to MNCs.
- Explain how to access forecasting performance of exchange rates.
- Discuss measuring exposure to exchange rate risk.

- Identify the differences among transaction exposure, economic exposure, and translation exposure.
- Identify different methods that MNCs can use to hedge foreign exchange risks.

### Module 3 – Managing Long-Term Asset and Liability Risk

At the end of this module, you should be able to:

- Explain why MNCs engage in direct foreign investments.
- Compare the capital budgeting analysis of an MNC’s subsidiary versus its parent.
- Demonstrate how multinational capital budgeting can be applied to determine whether an international project should be implemented.
- Explain how the risk of international projects can be assessed.
- Describe the key components of an MNC’s capital.
- Identify the factors that affect an MNC’s capital structure.
- Explain how the cost of capital is estimated.
- Explain why the cost of capital varies among countries.
- Discuss the costs and benefits of long-term debt financing by borrowing local currency or foreign currency.

### Module 4 – Managing Short-Term Asset and Liability Risk

At the end of this module, you should be able to:

- Compare different methods that MNCs can use to finance international trade.
- Identify the criteria that an MNC should use to decide whether it should use internal or external sources to finance its short-term investment needs.

## Textbook

- Jeff Madura, “International Financial Management”, 14<sup>th</sup> ed., 2021, Cengage Learning, Inc.
- \$50 through CarmenBooks, National price would be over \$100.
- The MindTap with eBook for ***International Financial Management*** by Madura is being provided via the OSU CarmenBooks program. Through CarmenBooks, students obtain publisher materials electronically through Carmen/Canvas, saving them up to 80% per title. The fee for this material is included as part of tuition and is listed as ***CarmenBooks fee*** on your Statement of Account. In addition to cost-savings, materials provided through CarmenBooks are available *immediately* on or before the first day of class. There is no need to wait for financial aid or scholarship money to purchase your textbook.
- Unless you choose to opt-out of the program, you do NOT need to purchase any materials for this course at the bookstore. However, if you opt out, you will then need to purchase access to MindTap through another avenue.

- For more information on the CarmenBooks program, please go to the CarmenBooks site: <https://affordablelearning.osu.edu/carmenbooks/students>
- You will register and access MindTap and eBook from the MindTap link/s in your professor's Carmen course. Please review the MindTap Registration instructions located in your Carmen course. You can also download the free Cengage mobile app to access the eBook from a mobile device.
- Recommended – Wall Street Journal (WSJ) or Bloomberg. As a finance major student, you are recommended to read the WSJ or Bloomberg to get the latest financial news. For digital access WSJ is charging \$4 a month or \$24 a year as long as you are a student. Bloomberg charges \$0.99/for three months and \$34.99 thereafter.
- For the WSJ, please click [The Wall Street Journal \(wsj.com\)](http://www.wsj.com)
- For Bloomberg, please click [Bloomberg News](http://www.bloomberg.com).

## Pre-Requisite

BusFin 4250, or concur: 4211 and 4221.

## How this Course Works

**Mode of delivery:** This course is 100% in-person. I expect each student to be in class on time and be prepared to participate in class discussions. I will put discussion questions on the screen and expect you to discuss the answers.

According to [OSU Policy](#), students should expect spend around an average of 3 hours per week on direct instruction (instructor content and Carmen activities, for example) in addition to a minimum of 6 hours of reading, assignment preparation, etc.

I expect you to stay in class the entire class time and give my lecture your undivided attention. However, if you must leave the classroom for few minutes, make sure you will do so as quietly as possible and will not slam the door.

## Chapters to Be Covered:

Chapter 2: International Flow of Funds

Chapter 5: Currency Derivatives

Chapter 6: Government Influence on Exchange Rates

Chapter 7: International Arbitrage and Interest Rate Parity

Chapter 8: Relationships among Inflation, Interest Rates, and Exchange Rates

Chapter 10: Measuring Exposure to Exchange Rate Fluctuations

Chapter 11: Managing Transaction Exposure

Chapter 12: Managing Economic Exposure and Translation Exposure

Chapter 13: Direct Foreign Investment

Chapter 14: Multinational Capital Budgeting

Chapter 17: Multinational Capital Structure and Cost of Capital

Chapter 18: Long-Term Debt Financing

Chapter 20: Short-Term Financing

## Course Technology:

For help with your password, university email, Carmen, or any other technology issues, questions, or requests, contact the Ohio State IT Service Desk. Standard support hours are available at [ocio.osu.edu/help/hours](https://ocio.osu.edu/help/hours), and support for urgent issues is available 24/7.

- **Self-Service and Chat support:** [ocio.osu.edu/help](https://ocio.osu.edu/help)
- **Phone:** 614-688-4357(HELP)
- **Email:** [servicedesk@osu.edu](mailto:servicedesk@osu.edu)
- **TDD:** 614-688-8743

### Baseline technical skills for online courses

- Basic computer and web-browsing skills
- Navigating Carmen: for questions about specific functionality, see the [Canvas Student Guide](#).

### Required Technology skills specific to this course

- [CarmenZoom virtual meetings](#)

### Required equipment

- Computer: current Mac (OS X) or PC (Windows 7+) with high-speed internet connection
- Webcam: built-in or external webcam, fully installed and tested
- Microphone: built-in laptop or tablet mic or external microphone
- Other: a mobile device (smartphone or tablet) or landline to use for BuckeyePass authentication

### Required software

Microsoft Office 365: All Ohio State students are now eligible for free Microsoft Office 365 ProPlus through Microsoft's Student Advantage program. Full instructions for downloading and installation can be found [at go.osu.edu/office365help](https://go.osu.edu/office365help).

### Carmen access

You will need to use [BuckeyePass](#) multi-factor authentication to access your courses in Carmen. To ensure that you are able to connect to Carmen at all times, it is recommended that you take the following steps:

- Register multiple devices in case something happens to your primary device. Visit the [BuckeyePass - Adding a Device](#) help article for step-by-step instructions.
- Request passcodes to keep as a backup authentication option. When you see the Duo login screen on your computer, click **Enter a Passcode** and then click the **Text me new codes** button that appears. This will text you ten passcodes good for 365 days that can each be used once.
- Download the [Duo Mobile application](#) to all of your registered devices for the ability to generate one-time codes in the event that you lose cell, data, or Wi-Fi service.

If none of these options will meet the needs of your situation, you can contact the IT Service Desk at 614-688-4357 (HELP) and IT support staff will work out a solution with you.

## Attendance and Participation Requirements

I expect everyone to attend class regularly. We are going to do many in-class active learning problems and questions. Answers to these problems and questions will not be posted in Carmen and will not be given to you individually. I will call on you to answer the questions. If you are absent, your class participation grade will be negatively affected.

My expectation is that everyone should participate in class discussions at least once a week. Anything mentioned in class is a fair game for quizzes/exams. The problems/questions that we do in class will be similar to the type of questions that you will see in quizzes and exams.

### Office hours: OPTIONAL

Office hours are optional but recommended especially if you are struggling with the material. Please contact me if you wish to meet with me in my office. The best way to contact me is by email. Please send the e-mail via OUTLOOK. I will respond back to your email within 48 hours.

## Grading and Evaluation

Graded assignments may come in three forms, and students should note the expectations for each in the descriptions of our class assignments below.

- **Independent Work (↑):** Strictly non-collaborative, original-individual work. You may discuss this assignment only with your instructor. Discussions with other individuals, either in person or electronically, are strictly prohibited.
- **Collaboration Required (↑↑↑):** An explicit expectation for collaboration among students (i.e., group work). Answers to some questions may involve searching on the internet/other sources. However, avoid writing long answers.

| Assignment Name                                   | Points     | Percentage  | Assignment Type                                     |
|---|------------|-------------|---|
| Exams (1 mid-term and a final exam) – Each 80 pts | 160        | 40%         | ↑   |
| Quizzes (Best of 4 out of 5) – 10 pts each        | 40         | 10%         | ↑   |
| Individual Assignments (MindTap)                  | 100        | 25%         | ↑   |
| Four Group Assignments – 15 pts each              | 60         | 15%         | ↑↑↑ Groups of 4 students (may be selected randomly) |
| Class Participation                               | 40         | 10%         | ↑   |
| <b>Total</b>                                      | <b>400</b> | <b>100%</b> |   |

The sum of all MindTap Assignments is 208 points. Your grade for each MindTap assignment is calculated as follows:

$$\frac{\text{Points Received from an Assignment}}{208} \times 100 \text{ pts}$$

### MindTap Assignments

|           |        |            |        |            |           |
|-----------|--------|------------|--------|------------|-----------|
| Chapter 2 | 18 pts | Chapter 9  | 17 pts | Chapter 14 | 16 pts    |
| Chapter 5 | 20 pts | Chapter 10 | 16 pts | Chapter 17 | 15 pts    |
| Chapter 6 | 11 pts | Chapter 11 | 20 pts | Chapter 18 | 14 pts    |
| Chapter 7 | 20 pts | Chapter 12 | 8 pts  | Chapter 20 | 9 pts     |
| Chapter 8 | 15 pts | Chapter 13 | 9 pts  | Total      | = 208 pts |

There will be four group assignments. They will be posted in Carmen.

## Quizzes, Midterm, and Final Exam

There are five in-class quizzes over the course of the semester, administered through lockdown browser. Each quiz will take between 10 to 15 minutes. The lowest quiz score will be dropped. The remaining quiz scores will contribute equally towards the total grade for quizzes.

There will be a midterm and a final exam. The exams will be administered through lockdown browser. Each exam will be 80 minutes in length. The final exam is not comprehensive. It will cover everything covered after the midterm.

Since exams and quizzes are taken via lockdown browser, use the link below to download the software. Please do not wait until the quiz day. If there is any technical issue, you want to have enough time to fix it before the test day:

<https://teaching.resources.osu.edu/toolsets/carmencanvas/guides/respondus-lockdown-browser-students>

## Course Resources to Learn the Material

Course slides and notes are posted in Carmen. Students are expected to read the assigned chapter before each class. To encourage preparation and facilitate class discussion, I may call on students in class to share their insights.

## Course Assignments

There will be both individual and group assignments. Individual assignments are in MindTap. You can make up to three attempts and the highest grade will be recorded in the gradebook. Group assignments may be done in groups of three to four students. They will be posted in Carmen.

Assignments are usually due every 1-2 weeks.

In either case, each student or group will be working independently of all other students or groups. All assignments are due at 11:59pm on the due date. No late assignment will be accepted. If you miss the due date, you will get a zero. The due date is announced in class and posted in Carmen. *Each assignment grade will contribute equally towards the Assignment component grade.* In group assignments, each student must contribute to the assignment. I encourage you to send me an e-mail if there are free riders in your group.

| <b>Grade Distribution</b> |                            |              |                            |
|---------------------------|----------------------------|--------------|----------------------------|
| <b>Grade</b>              | <b>Percentage - Points</b> | <b>Grade</b> | <b>Percentage – Points</b> |
| A                         | 93% ≤ 376 - 400 ≤ 100%     | C            | 73% ≤ 296 - 307.6 < 75%    |
| A-                        | 90% ≤ 360 - 375.6 < 92%    | C-           | 70% ≤ 280 - 295.6 < 72%    |
| B+                        | 86% ≤ 348 - 359.6 < 89%    | D+           | 66% ≤ 268 - 279.6 < 69%    |
| B                         | 83% ≤ 336 - 347.6 < 85%    | D            | 63% ≤ 256 - 267.6 < 65%    |
| B-                        | 80% ≤ 320 - 335.6 < 82%    | D-           | 60% ≤ 240 – 255.6 < 62%    |
| C+                        | 76% ≤ 308 - 319.6 < 79%    | F            | Below 255.6 points         |

Grades are non-negotiable. I do not offer any extra credit; please don't ask.

## **Academic Integrity**

Academic integrity is essential to maintaining an environment that fosters excellence in teaching, research, and other educational and scholarly activities. Thus, The Ohio State University and the Committee on Academic Misconduct (COAM) expect that all students have read and understand the University's *Code of Student Conduct*, and that all students will complete all academic and scholarly assignments with fairness and honesty. Students must recognize that failure to follow the rules and guidelines established in the university's *Code of Student Conduct* and this syllabus may constitute "academic misconduct."

The Ohio State University's *Code of Student Conduct* (Section 3335-23-04) defines academic misconduct as: "Any activity that tends to compromise the academic integrity of the University, or subvert the educational process." Examples of academic misconduct include (but are not limited to) plagiarism, collusion (unauthorized collaboration), copying the work of another student, submitting the same or similar work for credit in more than one class, and possession of unauthorized materials during an examination. Ignorance of the University's *Code of Student Conduct* is never considered an "excuse" for academic misconduct, so I recommend that you review the *Code of Student Conduct* and, specifically, the sections dealing with academic misconduct.

If a student is suspected of, or reported to have committed academic misconduct in this course, I am obligated by University Rules to report my suspicions to COAM. If you have any questions about the above policy or what constitutes academic misconduct in this course, please contact me.

## **Student COVID-related Accommodation Process**

The university strives to maintain a healthy and accessible environment to support student learning in and out of the classroom. If you anticipate or experience academic barriers based



on your disability (including mental health, chronic,-or temporary medical conditions), please let me know immediately so that we can privately discuss options. To establish reasonable accommodations, I may request that you register with Student Life Disability Services. After registration, make arrangements with me as soon as possible to discuss your accommodations so that they may be implemented in a timely fashion.

If you are isolating while waiting for a COVID-19 test result, please let me know immediately. Those testing positive for COVID-19 should refer to the [Safe and Healthy Buckeyes site](#) for resources. Beyond five days of the required COVID-19 isolation period, I may rely on Student Life Disability Services to establish further reasonable accommodations. You can connect with them at [slds@osu.edu](mailto:slds@osu.edu); 614-292-3307; or [slds.osu.edu](http://slds.osu.edu).

## Grade Appeals

Grade appeals must be emailed within one week after the graded work is made available. The entire document will be checked for grading errors, and correcting these could either raise or lower the overall score.

## Makeup Test

If you miss a quiz, it will be considered as the one that you can drop. Please do not ask for a makeup. As for the exams, makeup exams will only be given with proof in writing of a legitimate University approved absence. A legitimate University approved excuse is defined as illness, death in the immediate family, religion observance, jury duty, and similar emergency circumstances.

## Communication with your Professor

The preferred means of communication is via e-mail. Since I am teaching four sections of this course, please make sure that you will indicate the class time in your signature. Please avoid sending long e-mails. In cases where you have a long question, you can either call me or come to my office. Please send your e-mails to me via OUTLOOK as I check my OUTLOOK email messages several times a day.

## Instructor Feedback and Response Time

Below is my availability throughout the course.

- **Grading and feedback:** For assignments, you can expect feedback within 7 days.
- **Email:** I will reply to emails within 48 hours when classes are in session. Please send your e-mail via OUTLOOK.

Remember that you can call **614-688-HELP** at any time if you have a technical issue.

## Student Feedback

Although I have forty-two years of teaching experience, I am always open to feedback from students. Please share with me your thought about the class.

If you are struggling with the class, I should know about this immediately. I can make suggestions to help you.

## Course Schedule

This schedule is tentative and can change at my discretion. The revised syllabus will be uploaded in Carmen and students will be notified if that happens. The due dates for MindTap assignments are subject to change. If a change must be made, I will announce that in class, and you will also see the update in MindTap.

| The following course outline is tentative and is subject to change at my discretion |                                     |   |
|---|-------------------------------------|---|
| Week  | Dates                               | Topics  |
| 1   | January 8 and 10                    | Introduction – Course Overview<br>Chapter 2: International Flow of Funds  |
| 2   | January 15 (No class)<br>January 17 | Chapter 2 (cont.), Chapter 5: Currency Derivatives  |
| 3   | January 22 and 24                   | Chapter 5 (cont.)<br><b>Quiz 1 – January 24</b><br>Chapter 6: Government Influence on Exchange Rates                            |
| 4   | January 29 and 31                   | Chapter 6 (cont.)<br>The Dollar as the World’s Reserve Currency<br>Chapter 7: International Arbitrage and Interest Rate Parity  |
| 5   | February 5 and 7                    | Chapter 7 (cont.)<br><b>Quiz 2 – February 7</b><br>Chapter 8: Relationship between Inflation, Interest Rates and Exchange Rates |
| 6   | February 12 and 14                  | Chapter 8 (cont.)<br>Chapter 9: Forecasting Exchange Rates  |
| 7   | February 19 and 21                  | Chapter 9 (cont.)<br><b>Mid-Term – February 21</b>  |
| 8   | February 26 and 28                  | Chapter 10 Measuring Transaction Exposure<br>Chapter 11: Managing Transaction Exposure  |
| 9   | March 4 and 6                       | Chapter 11 (cont.)<br><b>Quiz 3 – March 6</b><br>Chapter 12: Managing Economic Exposure   |
|   | <b>March 11 and 15</b>              | <b>Spring Break</b>   |
| 10  | March 18 and 20                     | Chapter 12: (cont.)<br>Chapter 13: Foreign Direct Investment<br>Chapter 14: Multinational Capital Budgeting                     |
| 11  | March 25 and 27                     | <b>Quiz 4 – March 25</b><br>Chapter 14 (cont.)  |
| 12  | April 1 and 3                       | Chapter 17: Multinational Capital Structure   |
| 13  | April 8 and 10                      | <b>Quiz 5 – April 8</b><br>Chapter 18: Long-Term Debt Financing   |
| 14  | April 15 and 17                     | Chapter 20: Short-Terms Debt Financing  |

|    |          |                  |
|----|----------|------------------|
| 15 | April 22 | Final – April 22 |
|----|----------|------------------|