

**Course: Global Financial Management, FIN 855 (2 credits)**

Short Description: Financial management of multinational organizations including the management of foreign exchange exposure and the valuation or foreign investments

Prerequisites: Finance Core Course

Semester: Fall 2021

Dates: See weekend schedule below

Location: Union League Liberty Hill

Zoom Link: https://psu.zoom.us/my/gattis

**Instructor: Lou Gattis, Clinical Professor of Finance, Residential and Executive MBA Faculty Director**

Email: Gattis@psu.edu

Course Website: CANVAS (<https://psu.instructure.com>)

**Learning Objectives**

1. Forecast foreign exchange rates and understand the determinants of currency revaluations
2. Interpret foreign exchange quotations and use to convert currencies for spot and forward transactions
3. Identify, measure, and mitigate foreign exchange exposures
4. Value global investments
5. Assess and mitigate country risk

Penn State University requires everyone to wear a face mask in all university buildings, including classrooms, regardless of vaccination status. ALL STUDENTS MUST wear a mask appropriately (i.e., covering both your mouth and nose) while you are indoors on campus.  This is to protect your health and safety as well as the health and safety of your classmates, instructor, and the university community.Anyone attending class without a mask will be asked to put one on or leave.  Instructors may end class if anyone present refuses to appropriately wear a mask for the duration of class. Students who refuse to wear masks appropriately may face disciplinary action for Code of Conduct violations.  If you feel you cannot wear a mask during class, please speak with your adviser immediately about your options for altering your schedule.

**Course Material**

1. Required: Shapiro, Multinational Financial Management, 10th Edition
2. Required: Cases (Study.net)
   1. China's Renminbi: "Our Currency, Your Problem"? (HKU710-PDF-ENG)
   2. Globalizing the Cost of Capital and Capital Budgeting at AES (HBS 204109)
   3. Currency Hedging at AIFS (HBS 9-205-026)

**Assessments and Grades**

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| --- | --- | --- | --- |
| **Penn State Graduate Program Grading System** | | **GPA** | **Course**  **Percentages** |
| **Quality of Performance** | **Grade** |
| Excellent – Exceptional Achievement | A | 4.00 | 100% to 94% |
| A- | 3.67 | <94% to 90% |
| Good – Substantial Achievement | B+ | 3.33 | <90% to 87% |
| B | 3.00 | <87% to 84% |
| B- | 2.67 | <84% to 80% |
| C+ | 2.33 | <80% to 77% |
| Satisfactory – Acceptable Achievement | C | 2.00 | <77% to 74% |
| Poor/Failure – Inadequate Achievement | D\* | 1.00 | <74% to 64% |
| Failure | F\*\* | 0.00 | <64% to 0% |

\* D (Poor/Failure): This is a failing grade for a graduate student and cannot be used to meet graduate degree requirements and will not count toward credits earned.

\*\* F (Failure): Work unworthy of any credit, and suggests that the student may not be capable of succeeding in graduate program

**Course Assessment and Percentages**

|  |  |
| --- | --- |
| **Assessments** | **Percentage** |
| Class Participation | 15% |
| 3 Team Case Summaries | 25% |
| 2 Team Assignments | 25% |
| Take Home Individual Final | 35% |

**Class Participation Grading Rubric**

|  |  |  |  |
| --- | --- | --- | --- |
| **Quality of Performance** | **Grade** | **Preparedness, Interaction, Frequency** | **Relevance** |
| Excellent – Exceptional Achievement | A | Frequency of comments is optimal. Steps in when there are silences to move discussion along but keeps quiet when this allows others to contribute.  Always demonstrates commitment through thorough preparation; always arrives on time. Consistently interacts in a respectful way. Excellent listening skills and awareness. | Contributions enhance lesson or discussion: they may ask a key question, elaborate, bring in relevant personal knowledge, move the discussion along, identify issues or take the discussion to another level. Students use the vocabulary of the topic to be precise and clear. Able to synthesize or indicate gaps or extensions to topic. |
|  | A- |
| Good – Substantial Achievement | B+ | Contributes regularly to discussions, and allows others their turns to share their comments as well.  Rarely unprepared; rarely arrives late. Consistently interacts in a respectful way. Student does not cause disruptions during class and is an attentive, good listener in class. | Contributions are related to the topic and in general make connections between the topic and students’ comments. Clarification questions are asked. Language is clear, if somewhat general, and specific details are provided. |
| B |
| B- |
| C+ |
| Satisfactory – Acceptable Achievement | C | Comments occasionally. Sometimes talks over others. Often unprepared; occasionally arrives late. Interacts in a respectful way most of the time. Student does cause some disruptions during class. Somewhat attentive, good listener in class. | Comments may only repeat what has been already said, or may be tangential or may sidetrack discussion from time to time. Language is fairly general; only personal experience has some specific details. |
| Poor/Failure – Inadequate Achievement | D\* | Remains mostly silent or disrupts the class. Rarely prepared; often arrives late. Shows general disrespect to teacher and peers during instruction and interactions. Student is not attentive, or a good listener in class, and shows disruptive behavior | Comments are not related to topic at hand, or go back to previous part of discussion or question. Language is so general or confused that it’s difficult to understand where comment fits. |
| Failure | F\*\* |

**Schedule:**

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| --- | --- | --- |
| Weekend #1 | | |
| Weekend Preparation:  - Skim textbook chapters 2-4, 7, 14, 17 (and/or use for reference to complete assignments and cases)  - Prepare team case summary (China) due on Saturday and be ready to discuss | | |
| Friday 9/10 (1:30-3:30) |  | Course Introduction / Syllabus Review |
|  | PPT#1 FX Systems, Determinants, and Forecasting  (MFM 10th Ed. Ch 2-4) |
| Saturday 9/11 (8-12:15) | 8-9 | Class Discussion of China Case (Team Summary Paper Due) |
| 9:15-  10:30 | PPT#2 Exchange Rate Quotes, Transactions, Appreciations  (MFM 10th Ed. Ch 7) |
| 10:45  12:00 | PPT#3 Global Capital Budgeting and WACC  (MFM 10th Ed. Ch 14, 17) |
| Weekend #2 | | |
| Weekend Preparation:  - Complete team problem set 1-3 due on Friday  - Prepare team case summary (AES) due on Saturday and be ready to discuss  - Skim textbook chapters 8-11 (and/or use for reference to complete assignments and cases) | | |
| Friday 9/24 (1:30-3:30) |  | Team Problem Set Topics 1-3 Review Solution |
|  | PPT#4 FX Transaction and Translation Exposure  (MFM 10th Ed. Ch 10-11) |
| Saturday 9/25 (8-12:15) |  | Class Discussion of AES Case (Team Summary Paper Due) |
|  | PPT#5 Hedging FX Exposure with Forwards and Options  (MFM 10th Ed. Ch 8-9) |
|  | PPT#6 FX Competitive Exposure |
| Weekend #3 | | |
| Weekend Preparation:  - Complete team problem set 4-6 due on Friday  - Prepare team case summary (AIFS) due on Saturday and be ready to discuss | | |
| Friday 10/8 (3:45-5:45) |  | Team Problem Set Topics 4-6 Review Solution |
|  | PPT#7 Consumer FX |
| Saturday 10/9 (-5:15) |  | Class Discussion of AIFS Case (Team Summary Paper Due) |
|  | PPT#8 Global Strategy and Country Risk Assessment |
|  |  |
| Individual Take Home Final Exam due 10/20 covers topics 1-8. To be posted within 3 days of last class | | |

**Case Questions and Team papers**

Teams will complete a 2 page maximum (Single Spaced, 12 pitch, Arial font, Normal Margin) executive summary of each case. You may include worksheets or other materials as attachments, and they will not count in the page total. The papers will be due at the beginning of the case discussion class period. Be sure each team member’s name is listed at the top. Each summary will have three main sections:

1. SITUATION (What decision/action is required and what are implications of the actions to the organization)
2. ALTERNATIVES (What are the implications of alternative actions for the organization and stakeholders)
3. RECOMMENDATION (What should the decision maker do and why -- be specific)

**Use only case study, textbook, or general knowledge resources (e.g. google definitions). Analysis should only use information available at the time of the case.**

**Grading Rubric**

|  |  |  |
| --- | --- | --- |
| **Quality of Performance** | **Grade** | **Assessment** |
| Excellent – Exceptional Achievement | A | **No** errors in grammar, spelling, composition or format. The paper begins, flows, and ends effectively. **Correctly** acknowledges and documents sources in MLA style in-text citations and works cited pages. **Fully** discusses the situation and facts relevant to the required decision. The advantages and disadvantages of **several** alternative recommendations are included. The recommendation is **fully and effectively** supported by arguments, evidence, examples and details. The use of supporting detail is embedded in a context of **discussion**. The honor code is signed by all team members signifying appropriate contribution by all team members. |
| A- |
| Good – Substantial Achievement | B+ | **May contain minor** errors in grammar, spelling, composition or format. **Correctly** acknowledges and documents sources in MLA style in-text citations and works cited pages. **Effectively** discusses the situation and facts relevant to the required decision. The advantages and disadvantages of **at least one** alternative recommendation is included. The recommendation is **partially** supported by arguments, evidence, examples and details. The use of supporting detail is presented in **bullet point or table format**. The honor code is signed by all team members signifying appropriate contribution by all team members. |
| B |
| B- |
| C+ |
| Satisfactory – Acceptable Achievement | C | **May contain significant** errors in grammar, spelling, composition or format. **Incorrectly or partially** acknowledges and documents sources in MLA style in-text citations and works cited pages. **Partially** discusses the situation and facts relevant to the required decision. The advantages and disadvantages of **at least one** alternative recommendation is included. The recommendation is **partially** supported by arguments, evidence, examples and details. |
| Poor/Failure – Inadequate Achievement | D\* | **Many** errors in grammar, spelling, composition or format. The paper begins, flows, and ends **ineffectively**. **Incorrectly or partially** acknowledges and documents sources in MLA style in-text citations and works cited pages. The recommendation is **partially** supported by arguments, evidence, examples and details. |
| Failure | F\*\* |

The following questions are meant to guide you in your analysis. You should not list and answer each question in the paper – but you should consider and address each question before writing the paper. **These questions may be asked during case discussion. Case discussion will include cold calling and voluntary contribution.**

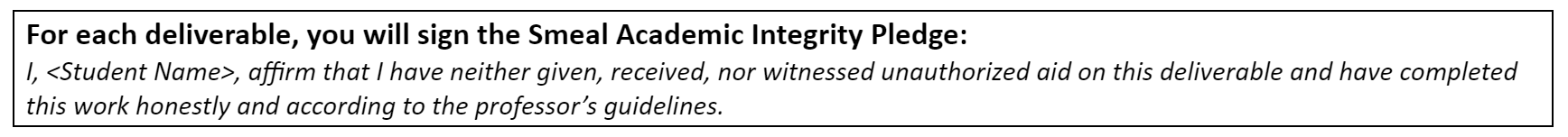
**Case Questions**

1. China's Renminbi: "Our Currency, Your Problem"?
2. SITUATION: How does China manage its currency? What is the evidence that the yuan is undervalued? How does China’s currency policy affect its people and economy? How does it affect its trading partners? How does China defend its policies and refute its critics?
3. ALTERNATIVES: What are the advantages and disadvantages of alternative currency policies for China?
4. RECOMMENDATION: What should China do? Why? How? When?
5. Globalizing the Cost of Capital and Capital Budgeting at AES (5-206-080)
6. SITUATION: Describe AES. What went wrong at AES? How would you evaluate the capital budgeting method used historically by AES? How does the new methodology incorporate country risk and project risk into valuation? What are the likely effects of the new methodology? What are the strengths and weaknesses of the new methodology?
7. ALTERNATIVES: If Venerus implements the suggested methodology, what would be the discount rates that AES would use for the Pakistan project (Lal Pir)? What would the discount rate be if the projected was located in the U.S.? What is the value of the Pakistan project using the new methodology, the old methodology, and the domestic cost of capital?
8. RECOMMENDATION: Would you recommend this new method of capital budgeting? What’s good and bad about it? Could it be improved? How will the new method affect AES?

1. Hedging Currency Risk at AIFS
2. SITUATION: How does AIFS earn profit and what are its business risks? Why is AIFS exposed to currency fluctuations? What types of geo-political-economic events or conditions could cause the euro to fluctuate and lead to losses at AIFS?
3. ALTERNATIVES: Use the forecast final sales volume of 25,000 customers (25 million euros) and analyze the possible outcomes relative to the “zero impact” scenario described in the case. See Excel worksheet template in CANVAS. What would happen if AIFS did not hedge at all? What would happen if they hedged 100% with forwards? What would happen if they hedged 100% with options? Should they pass the risk onto customers? What happens if volumes are lower or higher than expected as outlined at the end of the case?
4. RECOMMENDATION: What hedging strategy do you recommend? Should the hedging policy be changed? Justify your recommendation.
5. NOTE: SEE EXCEL WORKBOOK FOR CASE ATTACHMENT DATA

**Smeal Honor Code**

“We, the Smeal College of Business community, aspire to the highest ethical standards and will hold each other accountable to them. We will not engage in any action that is improper or that creates the appearance of impropriety in our academic lives, and we intend to hold this standard in our future careers.”



**Examples of Course Specific Academic Integrity Violations**

1. Use of the internet, email, texts, phones, or any other “social” media during in-class quizzes
2. Looking at another student’s work during an in-class quiz or exam
3. Access to prior semester solutions to assignments, quizzes, or final exam
4. Use of internet sites that provide solutions to problems, cases, exams, etc.
5. Sharing solutions across multiple groups
6. Completing final exam with aid from another student, former student, or any other outside resource other than the instructor or TA.

When in Doubt --- Ask me!

University Required Syllabus Information

**Academic Integrity**

According to the Penn State Principles and University Code of Conduct:

Academic integrity is a basic guiding principle for all academic activity at Penn State University, allowing the pursuit of scholarly activity in an open, honest, and responsible manner. According to the University’s Code of Conduct, you must neither engage in nor tolerate academic dishonesty. This includes, but is not limited to cheating, plagiarism, fabrication of information or citations, facilitating acts of academic dishonesty by others, unauthorized possession of examinations, submitting work of another person, or work previously used in another course without informing the instructor, or tampering with the academic work of other students.

* Any violation of academic integrity will be investigated and, where warranted, corrective academic and/or disciplinary action will be taken. For every incident where a penalty is assessed, an Academic Integrity Incident Report form must be filed. The form can be found on the Smeal College Honor and Integrity website: <http://ugstudents.smeal.psu.edu/honor>. This form is to be used for undergraduate courses. The report must be signed and dated by both the instructor and the student, and then submitted to Felisa Preciado Higgins, Associate Dean for Undergraduate Education, 202 Business Building.
* **University Policy G-9**

“Once a student has been informed that academic misconduct is suspected, the student may not drop the course during the adjudication process. The Dean of the College (UP) and/or the Chancellor (campuses) or his or her representative is responsible for notifying the Office of the University Registrar when academic misconduct is suspected in a course. Any drop or withdrawal from the course during this time will be reversed. A student who has received an academic sanction as a result of a violation of academic integrity may not drop or withdraw from the course at any time. These drop actions include regular drop, late drop, withdrawal, retroactive late drop and retroactive withdrawal. Any such drop action of the course will be reversed. This drop policy may be superseded in exceptional circumstances (i.e. trauma drop). In these cases, the Office of Student Conduct or the Student Conduct designee will confer with the Dean of the College (UP) or the Chancellor (campuses) or his or her representative to determine if the drop is warranted.

University Policy G-9    <http://undergrad.psu.edu/aappm/G-9-academic-integrity.html>

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**Plagiarism / Copying**

All work you submit for grading or academic credit is designed to reflect your knowledge and skill related to the course subject matter. Therefore, unless otherwise indicated, all work submitted is to be done on an individual basis. This includes but is not limited to all exams, quizzes, homework, papers, written assignments, and presentations.

Plagiarism is claiming work as your own that you have copied from another person, whether that other person knows about it or not. This includes copying from web sites without proper source citation and using homework or papers prepared by current or past students whether working as an individual or working in a group / team.

**Affirmative Action & Sexual Harassment**

The Pennsylvania State University is committed to a policy where all persons shall have equal access to programs, facilities, admission, and employment without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by Commonwealth or Federal authorities. Penn State does not discriminate against any person because of age, ancestry, color, disability or handicap, national origin, race, religious creed, gender, sexual orientation, or veteran status. Related inquiries should be directed to the Affirmative Action Office, 328 Boucke Building.

**Students with Disabilities**

Penn State and the Smeal College of Business welcomes students with disabilities to all of its classes, programs and events. Student Disability Resources in Room 116 Boucke Building provides a vast array of services for students with disabilities according to mandates under Title II of the ADA amendments Act of 2008 and Section 504 of the Rehabilitation Act of 1973. For more information or to meet with a service provider from Student Disability Resources, contact them at (814) 863-1807 (V/TTY) or visit their website at: <http://equity.psu.edu/sdr>

In order to receive consideration for reasonable accommodations, you must contact the appropriate disability services office at the campus enrolled, participate in an intake interview, and provide documentation:<http://equity.psu.edu/sdr/applying-for-services>If the documentation supports your request for reasonable accommodations, the Student Disability Resources office will provide you with an accommodation letter. Please share this letter with your instructors and discuss the accommodations with them as early in the course as possible. Adjustments will be made based on the recommendations in the accommodation letter. You must follow this process for every semester that you request accommodations.

**PENN STATE VALUES**

The Penn State Values (<http://values.psu.edu>) are our shared ideals about how people should act toward one another, the standards to which we hold ourselves, and those beliefs we find important. While aspirational in nature, the Penn State Values articulate our ethical principles and should guide our actions and decisions as members of the Penn State community, including in this course:

* **Integrity:** We act with integrity and honesty in accordance with the highest academic, professional, and ethical standards.
* **Respect:** We respect and honor the dignity of each person, embrace civil discourse, and foster a diverse and inclusive community.
* **Responsibility:** We act responsibly, and we are accountable for our decisions, actions, and their consequences.
* **Discovery:** We seek and create new knowledge and understanding, and foster creativity and innovation, for the benefit of our communities, society, and the environment.
* **Excellence:** We strive for excellence in all our endeavors as individuals, an institution, and a leader in higher education.
* **Community:** We work together for the betterment of our University, the communities we serve, and the world.

**PENN STATE HOTLINE**

Students can report issues and/or ask questions via phone at 1-800-560-1637 or online at [www.psu.edu/hotlines](http://www.psu.edu/hotlines)