

**Columbia Business School**  
**MBA Program**  
**January 17-21, 2023**

**International Finance**  
**Professor Laura Veldkamp**

**Course Description:** The course examines important issues in international finance, both corporate and asset pricing, using a mixture of classes involving lecture/discussion and the analysis of cases. After a review of international finance fundamentals, we will examine international capital budgeting decisions, which require an understanding of exchange rates and the determination of an appropriate cost of capital. To do this, our valuations will use both discounted cash flow analysis, adjusted net present value analysis, and various multiples. We will also explore forecasting, currency risk and political risk. Finally, the course discusses various tools to manage these different types of cross-border risks.

**Prerequisites:** This is a quantitative finance course. Students should have taken or exempted out of any introductory finance class, prior to enrolling in the course.

**Connection with the Core:** The class will utilize, build on, and extend concepts covered in the following core courses:

Corporate Finance:

Present Value

The Capital Asset Pricing Model

Systematic vs. Idiosyncratic Risk

Valuing a company with discounted cash flow analysis

Managerial Finance / Statistics:

Means, variances, and covariances

Normal distributions

Linear regression

Global Economic Environment:

Interest Rates and Inflation

The Determination of Exchange Rates

**Textbook:** Geert Bekaert and Robert Hodrick, *International Financial Management*, 3<sup>rd</sup> Edition, Cambridge University Press, 2017.

**Cases:** Cases are available as PDFs on Canvas. Since five days is so short, I would encourage doing some reading before we start.

**Course Requirements:**

Your grade will be based on class participation, which will assess the quality of what you contribute to class discussions. It will also reflect daily practice interview questions, a forecasting project, and a take-home final exam.

Class Participation: 40%;  
Practice Interview Questions: 15%  
Forecasting Exercise: 20%  
Take-Home Final: 25%

When cases are discussed in class, we will typically first break out into groups to discuss the cases as a small group. You are expected to participate as an equal partner in your group. I will cold call both groups and individuals for answers, on questions I provide you in advance.

### **Honor Code:**

The Take-Home Final Exam is to be done individually, without assistance or communication from others, and is open-book and open-note. All work on the exam should reflect your own thinking and work.

## **Schedule**

All readings should be done prior to the class, if possible. I realize that this block-week class is a very compact schedule, so time for case preparation will be allowed in class as well as breakout time for case discussion in groups. But there will not be time to read everything from the beginning, during class time alone.

### **Day 1:**

#### **Introduction to Foreign Exchange Markets and Transaction Exchange Risk**

##### **Spot and Forward Foreign Exchange Markets, Transaction Exchange Risks, and Interest Rate Parity**

Bekaert and Hodrick, Chapters 2, 3, 6 The Foreign Exchange Market

##### **Purchasing Power Parity and Real Exchange Rates**

Bekaert and Hodrick, Chapter 8, Purchasing Power Parity and Real Exchange Rates

##### **International Forecasting and Leading Indicators**

### **Day 2:**

#### **Prices and Real Operating Exposure**

##### **Hedging Transactions Risk with Foreign Currency Options**

Bekaert and Hodrick, Chapters 20, Foreign Currency Futures and Options

Bekaert and Hodrick, Chapter 9, Measuring and Managing Real Exchange Risk

Hedging Currency Risks at AIFS, HBS Case 9-205-026

### **FX Risk: Fixed Exchange Rate Crises**

Bekaert and Hodrick, Chapter 7, Speculation and Risk in the Foreign Exchange Market

## **Day 3**

### **Risk Management and ANPV**

Bekaert and Hodrick, Chapter 17, Risk Management and the Foreign Currency Hedging Decision

### **International Wood Products Case**

See Bekaert and Hodrick textbook for background. Case information to be provided in class.

### **Political Risk and Sovereign Debt**

Bekaert and Hodrick, Chapter 14, Political and Country Risk

## **Day 4**

### **The International Cost of Capital**

Bekaert and Hodrick, Chapter 13, International Capital Market Equilibrium

### **Risk Management at GM**

Foreign Exchange Hedging Strategies at General Motors: Transactional and Translational Exposures, HBS Case 9-205-095

Foreign Exchange Hedging Strategies at General Motors: Competitive Exposures, HBS Case 9-205-096

**Guest speaker:** Farooq Jaffrey, International Monetary Fund. Trading and hedging foreign exchange (FX) in practice. New FinTechs in the FX business space.

## **Day 5:**

**Guest speaker:** tbd

### **Forecast Presentations**