

# TABLE OF CONTENTS

## PREFACE

## **PART I ENVIRONMENT OF INTERNATIONAL FINANCIAL MANAGEMENT**

---

<b>1 INTRODUCTION: MULTINATIONAL ENTERPRISE AND MULTINATIONAL FINANCIAL MANAGEMENT</b>	<b>2</b>
Chapter Learning Objectives	2
Key Terms	2
1.1 The Rise of the Multinational Corporation	4
Evolution of the Multinational Corporation	9
<i>Raw-Materials Seekers</i>	10
<i>Market Seekers</i>	11
<i>Cost Minimizers</i>	12
A Behavioral Definition of the Multinational Corporation	15
The Global Manager	17
1.2 The Internationalization of Business and Finance	18
Political and Labor Union Concerns about Global Competition	19
Consequences of Global Competition	23
1.3 Multinational Financial Management: Theory and Practice	29
Criticisms of the Multinational Corporation	29
Functions of Financial Management	30

---

Theme of This Book	31
Relationship to Domestic Financial Management	32
<i>Arbitrage</i>	32
<i>Market Efficiency</i>	32
<i>Capital Asset Pricing</i>	33
The Importance of Total Risk	33
The Global Financial Marketplace	34
The Role of the Financial Executive in an Efficient Market	35
1.4 Outline of the Book	35
Environment of International Financial Management	35
Foreign Exchange and Derivatives Markets	36
Foreign Exchange Risk Management	36
Financing the Multinational Corporation	36
Foreign Investment Analysis	36
Multinational Working Capital Management	37
Questions	37
Internet Resources	38
Internet Exercises	38
Appendix 1A	39

- Chapter Learning Objectives 44
- Key Terms 44
- 2.1 Setting the Equilibrium Spot Exchange Rate 45
  - Demand for a Currency 45
  - Supply of a Currency 46
  - Factors that Affect the Equilibrium Exchange Rate 47
    - Relative Inflation Rates* 47
    - Relative Interest Rates* 48
    - Relative Economic Growth Rates* 48
    - Political and Economic Risk* 48
  - Calculating Exchange Rate Changes 50
- 2.2 Expectations and the Asset Market Model of Exchange Rates 52
  - The Nature of Money and Currency Values 56
  - Central Bank Reputations and Currency Values 58
    - Price Stability and Central Bank Independence* 59
    - Currency Boards* 63
    - Dollarization* 66
    - Expectations and Currency Values* 68
- 2.3 The Fundamentals of Central Bank Intervention 70
  - How Real Exchange Rates Affect Relative Competitiveness 70
  - Foreign Exchange Market Intervention 72
    - Mechanics of Intervention* 74
    - Sterilized versus Unsterilized Intervention* 75
  - The Effects of Foreign Exchange Market Intervention 76
- 2.4 The Equilibrium Approach to Exchange Rates 78
  - Disequilibrium Theory and Exchange Rate Overshooting 79
  - The Equilibrium Theory of Exchange Rates and Its Implications 80

2.5 Summary and Conclusions	82
Questions	83
Problems	84
Internet Resources	85
Internet Exercises	86
Bibliography	86

### **3 THE INTERNATIONAL MONETARY SYSTEM**

**87**

Chapter Learning Objectives	87
Key Terms	87
3.1 Alternative Exchange Rate Systems	88
Free Float	89
Managed Float	89
Target-Zone Arrangement	91
Fixed-Rate System	92
The Current System of Exchange Rate Determination	92
3.2 A Brief History of the International Monetary System	93
The Classical Gold Standard	96
How the Classical Gold Standard Worked in Practice: 1821–1914	98
The Gold Exchange Standard and Its Aftermath: 1925–1944	98
<i>Competitive Devaluations</i>	99
<i>Bretton Woods Conference and the Postwar Monetary System</i>	99
<i>Role of the IMF</i>	99
<i>Role of the World Bank</i>	100
<i>Role of the Bank for International Settlements</i>	100
The Bretton Woods System: 1946–1971	101
The Post–Bretton Woods System: 1971 to the Present	102
<i>OPEC and the Oil Crisis of 1973–1974</i>	102
<i>U.S. Dollar Crisis of 1977–1978</i>	103
<i>The Rising Dollar: 1980–1985</i>	103
<i>The Sinking Dollar: 1985–1987</i>	103
<i>Recent History: 1988–2005</i>	104

Assessment of the Floating-Rate  
System 105

*Currency Volatility Has Increased* 106

*Requirements for Currency Stability* 106

### 3.3 The European Monetary System and Monetary Union 107

The Exchange Rate Mechanism 107

Lessons from the European Monetary  
System 107

The Currency Crisis of  
September 1992 108

*The Catalyst* 108

*The High Cost of Intervention* 108

The Exchange Rate Mechanism Is  
Abandoned in August 1993 109

*The Catalyst* 109

*Governments Surrender to the Market* 110

*A Postmortem on the EMS* 110

European Monetary Union 111

*Maastricht Convergence Criteria* 111

*Launch of the Euro* 112

*EMU and the European Welfare State* 112

*Consequences of EMU* 114

*Performance of the Euro* 115

Optimum Currency Area 119

### 3.4 Emerging Market Currency Crises 122

Transmission Mechanisms 122

*Trade Links* 122

*Financial System* 122

*Debt Policy* 122

Origins of Emerging Market  
Crises 122

*Moral Hazard* 122

*Fundamental Policy Conflict* 123

Policy Proposals for Dealing with  
Emerging Market Crises 123

*Currency Controls* 123

*Freely Floating Currency* 123

*Permanently Fixed Exchange Rate* 124

*Better Information* 124

### 3.5 Summary and Conclusions 125

Questions 126

Problems 126

Internet Resources	127
Internet Exercises	127
Bibliography	128

## **4 PARITY CONDITIONS IN INTERNATIONAL FINANCE AND CURRENCY FORECASTING** **129**

Chapter Learning Objectives	129
Key Terms	129
4.1 Arbitrage and the Law of One Price	130
4.2 Purchasing Power Parity	134
The Lesson of Purchasing Power Parity	138
Expected Inflation and Exchange Rate Changes	140
The Monetary Approach	140
Empirical Evidence	141
4.3 The Fisher Effect	144
Empirical Evidence	147
<i>Adding Up Capital Markets Internationally</i>	152
4.4 The International Fisher Effect	152
Empirical Evidence	154
4.5 Interest Rate Parity Theory	155
Empirical Evidence	161
4.6 The Relationship Between the Forward Rate and the Future Spot Rate	161
Empirical Evidence	164
4.7 Currency Forecasting	165
Requirements for Successful Currency Forecasting	165
Market-Based Forecasts	166
<i>Forward Rates</i>	166
<i>Interest Rates</i>	166
Model-Based Forecasts	166
<i>Fundamental Analysis</i>	168
<i>Technical Analysis</i>	168
Model Evaluation	169
Forecasting Controlled Exchange Rates	171

4.8 Summary and Conclusions	172
Questions	174
Problems	175
Internet Resources	
Internet Exercises	
Bibliography	178

## **5 THE BALANCE OF PAYMENTS AND INTERNATIONAL ECONOMIC LINKAGES** **179**

Chapter Learning Objectives	179
Key Terms	179
5.1 Balance-of-Payments Categories	180
Current Account	182
Capital Account	184
Financial Account	184
Balance-of-Payments Measures	185
The Missing Numbers	186
5.2 The International Flow of Goods, Services, and Capital	186
Domestic Savings and Investment and the Financial Account	187
The Link Between the Current and Financial Accounts	187
Government Budget Deficits and Current-Account Deficits	191
The Current Situation	193
5.3 Coping with the Current-Account Deficit	195
Currency Depreciation	196
<i>Lagged Effects</i>	197
<i>J-Curve Theory</i>	197
<i>Devaluation and Inflation</i>	199
<i>U.S. Deficits and the Demand for U.S. Assets</i>	199
Protectionism	200
Ending Foreign Ownership of Domestic Assets	200
Boosting the Savings Rate	202

External Policies	203
Current-Account Deficits and Unemployment	203
The Bottom Line on Current-Account Deficits and Surpluses	205
5.4 Summary and Conclusions	206
Questions	207
Problems	208
Internet Resources	209
Internet Exercises	210

## **6 COUNTRY RISK ANALYSIS 211**

Chapter Learning Objectives	211
Key Terms	211
6.1 Measuring Political Risk	212
Political Stability	213
Economic Factors	214
Subjective Factors	215
<i>Political Risk and Uncertain Property Rights</i>	216
<i>Capital Flight</i>	220
6.2 Economic and Political Factors Underlying Country Risk	222
Fiscal Irresponsibility	223
Monetary Instability	225
Controlled Exchange Rate System	226
Wasteful Government Spending	226
Resource Base	227
Country Risk and Adjustment to External Shocks	227
Market-Oriented versus Statist Policies	228
<i>Why Capitalism Works</i>	228
<i>Statist Policies Constrain Growth</i>	229
<i>Why Statist Policies Persist</i>	229
Key Indicators of Country Risk and Economic Health	230
<i>Market-Oriented Policies Work</i>	232
<i>Market-Oriented Reform in Latin America</i>	233
<i>Obstacles to Economic Reform</i>	235



- 6.3 Country Risk Analysis in International Banking** 237
- Country Risk and the Terms of Trade 237
  - The Government's Cost/Benefit Calculus 238
  - Lessons from the International Debt Crisis 239
    - Onset of the Crisis* 239
    - Reform Takes Hold* 239

## **PART II FOREIGN EXCHANGE DERIVATIVES MARKETS**

---

### **7 THE FOREIGN EXCHANGE MARKET** **246**

- Chapter Learning Objectives 246
- Key Terms 246
- 7.1 Organization of the Foreign Exchange Market** 247
  - The Participants 249
    - The Clearing System* 251
    - Electronic Trading* 252
  - Size 253
- 7.2 The Spot Market** 255
  - Spot Quotations 255
    - Transaction Costs* 258
    - Cross Rates* 259
    - Currency Arbitrage* 261
    - Settlement Date* 263
    - Exchange Risk* 263
  - The Mechanics of Spot Transactions 264
- 7.3 The Forward Market** 265
  - Forward Quotations 267
    - Exchange Risk* 269
    - Cross Rates* 269
  - Forward Contract Maturities 270
- 7.4 Summary and Conclusions** 271
  - Questions 271
  - Problems 271

<i>Debt Relief</i>	239
<i>The Crisis Ends</i>	240
<i>Lessons from Successful Economic Reform</i>	240

#### 6.4 Summary and Conclusions 241

Questions	241
Problems	241
Internet Resources	243
Internet Exercises	243
Bibliography	243

## **E AND**

**245**

---

Internet Resources	272
Internet Exercises	273
Bibliography	273

## **8 CURRENCY FUTURES AND OPTIONS MARKETS**

**274**

Chapter Learning Objectives	274
Key Terms	274

### 8.1 Futures Contracts 275

Forward Contract versus Futures Contract	276
<i>Advantages and Disadvantages of Futures Contracts</i>	281
<i>Arbitrage Between the Futures and Forward Markets</i>	281

### 8.2 Currency Options 281

Market Structure	282
Using Currency Options	285
<i>Currency Spread</i>	289
<i>Knockout Options</i>	290
Option Pricing and Valuation	291
Using Forward or Futures Contracts versus Options Contracts	293
Futures Options	298

8.3	Reading Currency Futures and Options Prices	300
8.4	Summary and Conclusions	302
	Questions	302
	Problems	302
	Internet Resources	303
	Internet Exercises	304
	Bibliography	304
	Appendix 8A	304
	Appendix 8B	307

## **9 SWAPS AND INTEREST RATE DERIVATIVES 311**

	Chapter Learning Objectives	311
	Key Terms	311
9.1	Interest Rate and Currency Swaps	312
	Interest Rate Swaps	312
	<i>The Classic Swap Transaction</i>	313
	<i>Cost Savings Associated with Swaps</i>	314

## **PART III FOREIGN EXCHANGE**

---

### **10 MEASURING AND MANAGING TRANSLATION AND TRANSACTION EXPOSURE 336**

	Chapter Learning Objectives	336
	Key Terms	336
10.1	Alternative Measures of Foreign Exchange Exposure	337
	Translation Exposure	337
	Transaction Exposure	338
	Operating Exposure	339
10.2	Alternative Currency Translation Methods	339
	Current/Noncurrent Method	339
	Monetary/Nonmonetary Method	340



<b>10.5</b>	Managing Translation Exposure	353
	Funds Adjustment	354
	Evaluating Alternative Hedging Mechanisms	355
<b>10.6</b>	Managing Transaction Exposure	356
	Forward Market Hedge	357
	<i>The True Cost of Hedging</i>	357
	Money-Market Hedge	359
	Risk Shifting	361
	Pricing Decisions	362
	Exposure Netting	363
	Currency Risk Sharing	365
	Currency Collars	367
	Cross-Hedging	367
	Foreign Currency Options	370
	<i>Using Options to Hedge Bids</i>	371
	<i>Using Options to Hedge Other Currency Risks</i>	372
	<i>Options Versus Forward Contracts</i>	373
<b>10.7</b>	Summary and Conclusions	375
	Questions	376
	Problems	377
	Internet Resources	379
	Internet Exercises	379
	Bibliography	380
	Appendix 10A	380

## **11 MEASURING AND MANAGING ECONOMIC EXPOSURE 385**

	Chapter Learning Objectives	385
	Key Terms	385
<b>11.1</b>	Foreign Exchange Risk and Economic Exposure	386
	Real Exchange Rate Changes and Exchange Risk	388
	Importance of the Real Exchange Rate	389
	Inflation and Exchange Risk	389

Competitive Effects of Real Exchange  
Rate Changes 390

**11.2** The Economic Consequences of Exchange  
Rate Changes 394

Transaction Exposure 394

Operating Exposure 395

**11.3** Identifying Economic Exposure 399

Aspen Skiing Company 399

Petroleos Mexicanos 400

Toyota Motor Company 401

**11.4** Calculating Economic Exposure 402

Spectrum's Accounting Exposure 402

Spectrum's Economic Exposure 402

*Case Analysis* 407

**11.5** An Operational Measure of Exchange  
Risk 407

Limitations 408

**11.6** Managing Operating Exposure 409

Marketing Management of Exchange  
Risk 409

*Market Selection* 409

*Pricing Strategy* 409

*Product Strategy* 412

Production Management of Exchange  
Risk 413

*Input Mix* 413

*Shifting Production Among Plants* 414

*Plant Location* 415

*Raising Productivity* 416

Planning for Exchange Rate  
Changes 417

Financial Management of Exchange  
Risk 419

**11.7** Summary and Conclusions 425

Questions 426

Problems 427

Internet Resources 429

Internet Exercises 429

Bibliography 429

# **PART IV FINANCING THE M CORPORATION**

---

## **12 INTERNATIONAL FINANCING AND NATIONAL CAPITAL MARKETS 432**

- Chapter Learning Objectives 432
- Key Terms 432
- 12.1 Corporate Sources and Uses of Funds 433
  - Financial Markets versus Financial Intermediaries 434
  - Financial Systems and Corporate Governance 434
  - Globalization of Financial Markets 438
- 12.2 National Capital Markets as International Financial Centers 441
  - International Financial Markets 445
  - Foreign Access to Domestic Markets 445
    - The Foreign Bond Market* 446
    - The Foreign Bank Market* 447
    - The Foreign Equity Market* 447
  - Globalization of Financial Markets Has Its Downside 453
- 12.3 Development Banks 453
  - The World Bank Group 454
    - IBRD* 454
    - IFC* 454
    - IDA* 455
  - Regional and National Development Banks 455
    - Regional Development Banks* 455
    - National Development Banks* 456
  - Private-Sector Alternatives 456
- 12.4 Project Finance 458
- 12.5 Summary and Conclusions 459
  - Questions 460
  - Problem 460
  - Internet Resources 461
  - Internet Exercises 461
  - Bibliography 461

<b>13 THE EUROMARKETS</b>	<b>462</b>
Chapter Learning Objectives	462
Key Terms	462
<b>13.1 The Eurocurrency Market</b>	<b>462</b>
Modern Origins	463
Eurodollar Creation	464
Eurocurrency Loans	465
<i>Terms</i>	466
<i>Multicurrency Clauses</i>	467
Relationship Between Domestic and Eurocurrency Money Markets	468
<i>Interest Differentials</i>	468
<i>Eurocurrency Spreads</i>	468
Euromarket Trends	469
<b>13.2 Eurobonds</b>	<b>470</b>
Swaps	471
Links Between the Domestic and Eurobond Markets	471
<i>Placement</i>	471
<i>Currency Denomination</i>	471
<i>Interest Rates on Fixed-Rate Eurobonds</i>	471
<i>Interest Rates on Floating-Rate Eurobonds</i>	472
<i>Eurobond Retirement</i>	473
<i>Ratings</i>	474
Rationale for Existence of Eurobond Market	474
Eurobonds versus Eurocurrency Loans	476
<b>13.3 Note Issuance Facilities and Euronotes</b>	<b>477</b>
Note Issuance Facilities versus Eurobonds	480
Euro-Medium-Term Notes	480
<i>Reasons for Success</i>	480
<i>Costs of a Euro-MTN Program</i>	481



<i>Characteristics</i>	481
<i>Risks</i>	482
13.4 Euro-Commercial Paper	482
13.5 The Asiacurrency Market	483
13.6 Summary and Conclusions	484
Questions	484
Problems	485
Internet Resources	485
Internet Exercises	486
Bibliography	486

## **14 THE COST OF CAPITAL FOR FOREIGN INVESTMENTS 487**

Chapter Learning Objectives	487
Key Terms	487
14.1 The Cost of Equity Capital	488
14.2 The Weighted Average Cost of Capital for Foreign Projects	489
14.3 Discount Rates for Foreign Investments	491
Evidence from the Stock Market	492
Key Issues in Estimating Foreign Project Discount Rates	493
Proxy Companies	494
<i>Local Companies</i>	494
<i>Proxy Industry</i>	495
<i>Adjusted U.S. Industry Beta</i>	496
The Relevant Base Portfolio	496
<i>The Impact of Globalization on the Cost         of Capital</i>	497

## **PART V FOREIGN INVESTME**

### **15 INTERNATIONAL PORTFOLIO INVESTMENT 524**

Chapter Learning Objectives	524
Key Terms	524

	<i>Empirical Evidence</i>	499
	<i>A Recommendation</i>	500
	The Relevant Market Risk Premium	500
	Recommendations	502
14.4	The Cost of Debt Capital	502
	Annual Exchange Rate Change	504
	Using Sovereign Risk Spreads	504
14.5	Establishing a Worldwide Capital Structure	505
	Foreign Subsidiary Capital Structure	506
	<i>Political Risk Management</i>	508
	<i>Currency Risk Management</i>	509
	<i>Leverage and Foreign Tax Credits</i>	509
	<i>Leasing and Taxes</i>	509
	<i>Cost-Minimizing Approach to Global Capital Structure</i>	510
	Joint Ventures	511
14.6	Valuing Low-Cost Financing Opportunities	511
	Taxes	512
	<i>Zero-Coupon Bonds</i>	513
	<i>Debt versus Equity Financing</i>	514
	Government Credit and Capital Controls	514
	Government Subsidies and Incentives	515
14.7	Summary and Conclusions	518
	Questions	519
	Problems	519
	Internet Resources	520
	Internet Exercises	520
	Bibliography	520

15.1	The Risks and Benefits of International Equity Investing	525
	International Diversification	526
	<i>Correlations and the Gains from Diversification</i>	528
	<i>Recent Correlations</i>	532

Investing in Emerging Markets	535
Barriers to International Diversification	540
15.2 International Bond Investing	543
15.3 Optimal International Asset Allocation	544
15.4 Measuring the Total Return from Foreign Portfolio Investing	545
Bonds	545
Stocks	546
15.5 Measuring Exchange Risk on Foreign Securities	547
Hedging Currency Risk	548
15.6 Summary and Conclusions	548
Questions	549
Problems	549
Internet Resources	551
Internet Exercises	551
Bibliography	551

## **16 CORPORATE STRATEGY AND FOREIGN DIRECT INVESTMENT 553**

Chapter Learning Objectives	553
Key Terms	553
16.1 The Process of Overseas Expansion	554
Exporting	554
Overseas Production	555
Licensing	556
16.2 Theory of the Multinational Corporation	557
Product and Factor Market Imperfections	557
Financial Market Imperfections	558
16.3 The Strategy of Multinational Enterprise	559
Innovation-Based Multinationals	559
The Mature Multinationals	560
The Senescent Multinationals	563

Foreign Direct Investment and Survival	565
<i>Cost Reduction</i>	565
<i>Economies of Scale</i>	565
<i>Multiple Sourcing</i>	567
<i>Knowledge Seeking</i>	567
<i>Keeping Domestic Customers</i>	569
<b>16.4</b> Designing a Global Expansion Strategy	571
1. Awareness of Profitable Investments	571
2. Selecting a Mode of Entry	572
3. Auditing the Effectiveness of Entry Modes	572
4. Using Appropriate Evaluation Criteria	573
5. Estimating the Longevity of a Competitive Advantage	574
<b>16.5</b> Summary and Conclusions	575
Questions	575
Problems	576
Internet Resources	577
Internet Exercises	577
Bibliography	577

## **17 CAPITAL BUDGETING FOR THE MULTINATIONAL CORPORATION 578**

Chapter Learning Objectives	578
Key Terms	578
<b>17.1</b> Basics of Capital Budgeting	579
Net Present Value	579
Incremental Cash Flows	580
<i>Cannibalization</i>	580
<i>Sales Creation</i>	581
<i>Opportunity Cost</i>	581
<i>Transfer Pricing</i>	581
<i>Fees and Royalties</i>	582
<i>Getting the Base Case Right</i>	582
<i>Accounting for Intangible Benefits</i>	583

Alternative Capital-Budgeting Frameworks	584
<i>An Adjusted Present Value Approach</i>	584
<b>17.2</b> Issues in Foreign Investment Analysis	586
Parent versus Project Cash Flows	586
<i>A Three-Stage Approach</i>	586
<i>Estimating Incremental Project Cash Flows</i>	587
<i>Tax Factors</i>	587
Political and Economic Risk Analysis	588
<i>Adjusting the Discount Rate or Payback Period</i>	588
<i>Adjusting Expected Values</i>	589
Exchange Rate Changes and Inflation	589
<b>17.3</b> Foreign Project Appraisal: The Case of International Diesel Corporation	590
Estimation of Project Cash Flows	591
<i>Initial Investment Outlay</i>	591
<i>Financing IDC-U.K.</i>	592
<i>Interest Subsidies</i>	593
<i>Sales and Revenue Forecasts</i>	593
<i>Production Cost Estimates</i>	594

## **PART VI MULTINATIONAL W MANAGEMENT**

---

<b>18</b>	<b>FINANCING FOREIGN TRADE</b>	<b>616</b>
	Chapter Learning Objectives	616
	Key Terms	616
<b>18.1</b>	Payment Terms in International Trade	617
	Cash in Advance	617
	Letter of Credit	618
	<i>Online Alternatives</i>	622
	Draft	623
	Consignment	625
	Open Account	626

<i>Projected Net Income</i>	594
<i>Additions to Working Capital</i>	594
<i>Terminal Value</i>	596
<i>Estimated Project Present Value</i>	596
17.3 <i>Estimation of Parent Cash Flows</i>	597
<i>Loan Payments</i>	597
<i>Remittances to IDC-U.S.</i>	598
<i>Earnings on Exports to IDC-U.K.</i>	597
<i>Estimated Present Value of Project to IDC-U.S.</i>	598
<i>Lost Sales</i>	598
17.4 <i>Political Risk Analysis</i>	600
<i>Expropriation</i>	600
<i>Blocked Funds</i>	601
17.5 <i>Growth Options and Project Evaluation</i>	602
17.6 <i>Summary and Conclusions</i>	606
<i>Questions</i>	607
<i>Problems</i>	607
<i>Internet Resources</i>	608
<i>Internet Exercises</i>	609
<i>Appendix 17A</i>	609

## **WORKING CAPITAL**

**615**

<i>Banks and Trade Financing</i>	627
<i>Collecting Overdue Accounts</i>	627
18.2 <i>Documents in International Trade</i>	628
<i>Bill of Lading</i>	628
<i>Commercial Invoice</i>	629
<i>Insurance Certificate</i>	629
<i>Consular Invoice</i>	629
18.3 <i>Financing Techniques in International Trade</i>	630
<i>Bankers' Acceptances</i>	630
<i>Creating an Acceptance</i>	630

	<i>Terms of Acceptance Financing</i>	630
	<i>Evaluating the Cost of Acceptance Financing</i>	632
	Discounting	632
	Factoring	633
	<i>Evaluating the Cost of Factoring</i>	633
	Forfaiting	634
<b>18.4</b>	<b>Government Sources of Export Financing and Credit Insurance</b>	<b>634</b>
	Export Financing	634
	<i>Export-Import Bank</i>	635
	<i>Private Export Funding Corporation</i>	637
	<i>Trends</i>	637
	Export-Credit Insurance	637
	<i>Foreign Credit Insurance Association</i>	638
	Taking Advantage of Government-Subsidized Export Financing	638
	<i>Export Financing Strategy</i>	639
	<i>Import Financing Strategy</i>	639
<b>18.5</b>	<b>Countertrade</b>	<b>640</b>
<b>18.6</b>	<b>Summary and Conclusions</b>	<b>643</b>
	Questions	644
	Problems	644
	Internet Resources	645
	Internet Exercises	645
	Bibliography	645

## **19 CURRENT ASSET MANAGEMENT AND SHORT-TERM FINANCING 646**

	Chapter Learning Objectives	646
	Key Terms	646
<b>19.1</b>	<b>International Cash Management</b>	<b>647</b>
	Organization	647
	Collection and Disbursement of Funds	648

Payments Netting in International Cash Management	651
<i>Bilateral and Multilateral Netting</i>	651
<i>Information Requirements</i>	652
<i>Foreign Exchange Controls</i>	654
<i>Analysis</i>	654
Management of the Short-Term Investment Portfolio	655
<i>Portfolio Guidelines</i>	656
Optimal Worldwide Cash Levels	656
<i>Evaluation and Control</i>	658
Cash Planning and Budgeting	659
<i>Multinational Cash Mobilization</i>	659
Bank Relations	661
<b>19.2</b> Accounts Receivable Management	663
Credit Extension	663
<b>19.3</b> Inventory Management	665
Production Location and Inventory Control	665
Advance Inventory Purchases	666
Inventory Stockpiling	666
<b>19.4</b> Short-Term Financing	666
Key Factors in Short-Term Financing Strategy	667
Short-Term Financing Objectives	668
Short-Term Financing Options	669
<i>Intercompany Financing</i>	669
<i>Local Currency Financing</i>	669
<i>Bank Loans</i>	669
<i>Commercial Paper</i>	673
Calculating the Dollar Costs of Alternative Financing Options	673
<i>Case 1: No Taxes</i>	674
<i>Case 2: Taxes</i>	675
<b>19.5</b> Summary and Conclusions	677
Questions	678
Problems	679
Internet Resources	680
Internet Exercises	680
Bibliography	680



Chapter Learning Objectives 681

Key Terms 681

**20.1** The Value of the Multinational Financial System 682

Mode of Transfer 683

Timing Flexibility 684

Value 684

**20.2** Intercompany Fund-Flow Mechanisms:

Costs and Benefits 686

Tax Factors<sup>3</sup> 686

Transfer Pricing 687

*Tax Effects* 687

*Tariffs* 688

*Exchange Controls* 691

*Joint Ventures* 691

*Disguising Profitability* 691

*Evaluation and Control* 691

Reinvoicing Centers 691

Fees and Royalties 692

Leading and Lagging 694

*Shifting Liquidity* 694

*Advantages* 696

*Government Restrictions* 696

Intercompany Loans	696
<i>Back-to-Back Loans</i>	696
<i>Parallel Loans</i>	699
Dividends	700
<i>Tax Effects</i>	700
<i>Financing Requirements</i>	701
<i>Exchange Controls</i>	701
<i>Joint Ventures</i>	703
Equity versus Debt	703
20.3 Designing a Global Remittance Policy	706
Prerequisites	707
Information Requirements	708
Behavioral Consequences	708
20.4 Summary and Conclusions	710
Questions	711
Problems	711
Internet Resources	712
Internet Exercises	712
Bibliography	713

**GLOSSARY**

**715**

**INDEX**

**733**