

Contents

Preface	xv
Acknowledgments	xix
PART ONE	
The International Financial Environment	
CHAPTER 1	
An Introduction to Multinational Finance	3
Executive Summary	3
1.1 The Goals of the Multinational Corporation	3
1.2 The Challenges of Multinational Operations	6
1.3 The Opportunities of Multinational Operations	9
1.4 Financial Management of the Multinational Corporation	15
1.5 Summary	16
Key Terms	17
Conceptual Questions	17
CHAPTER 2	
World Trade and the International Monetary System	19
Executive Summary	19
2.1 Integration of the World's Markets	19
2.2 Balance-of-Payments Statistics	22
2.3 Exchange Rate Systems	25
2.4 A Brief History of the International Monetary System	28
2.5 The Global Financial Crisis of 2008	40
2.6 Summary	41
Key Terms	42
Conceptual Questions	42
Problems	43
Suggested Readings	43
CHAPTER 3	
Foreign Exchange and Eurocurrency Markets	45
Executive Summary	45
3.1 Characteristics of Financial Markets	45
3.2 The Eurocurrency Market	46
3.3 The Foreign Exchange Market	51
3.4 Foreign Exchange Rates and Quotations	57

3.5	The Empirical Behavior of Exchange Rates	64
3.6	Summary	67
	Key Terms	68
	Conceptual Questions	69
	Problems	69
	Suggested Readings	71

CHAPTER 4

	The International Parity Conditions and Their Consequences	73
	Executive Summary	73
4.1	The Law of One Price	73
4.2	Exchange Rate Equilibrium	76
4.3	Interest Rate Parity and Covered Interest Arbitrage	80
4.4	Less Reliable International Parity Conditions	83
4.5	The Real Exchange Rate	88
4.6	Exchange Rate Forecasting	94
4.7	Summary	96
	Key Terms	97
	Conceptual Questions	98
	Problems	98
	Suggested Readings	102
	Appendix 4A: Continuous Compounding	102
	Problems	106

PART TWO

Derivative Securities for Financial Risk Management

CHAPTER 5

	Currency Futures and Futures Markets	109
	Executive Summary	109
5.1	Financial Futures Exchanges	109
5.2	The Operation of Futures Markets	111
5.3	Futures Contracts	112
5.4	Forward versus Futures Market Hedges	115
5.5	Futures Hedges Using Cross-Exchange Rates	119
5.6	Hedging with Currency Futures	120
5.7	Summary	129
	Key Terms	131
	Conceptual Questions	131
	Problems	132
	Suggested Readings	133

CHAPTER 6

	Currency Options and Options Markets	135
	Executive Summary	135
6.1	What Is an Option?	135
6.2	Option Payoff Profiles	138
6.3	Currency Option Values Prior to Expiration	143

6.4	Hedging with Currency Options	147
6.5	Exchange Rate Volatility Revisited (Advanced)	152
6.6	Summary	158
	Key Terms	159
	Conceptual Questions	159
	Problems	159
	Suggested Readings	161
	Appendix 6A: Currency Option Valuation	161
	Key Terms	168
	Problems	168
	Suggested Readings	170

CHAPTER 7

	Currency Swaps and Swaps Markets	171
	Executive Summary	171
7.1	The Growth of the Swaps Market	171
7.2	Swaps as Portfolios of Forward Contracts	172
7.3	Currency Swaps	176
7.4	Interest Rate Swaps	183
7.5	Other Types of Swaps	187
7.6	Hedging the Swap Bank's Exposure to Financial Price Risk	189
7.7	Summary	190
	Key Terms	190
	Conceptual Questions	191
	Problems	191
	Suggested Readings	193

PART THREE

Managing the Risks of Multinational Operations

CHAPTER 8

	Multinational Treasury Management	197
	Executive Summary	197
8.1	Determining Financial Goals and Strategies	197
8.2	Managing the Corporation's International Trade	199
8.3	Financing the Corporation's International Trade	205
8.4	Managing the Multinational Corporation's Cash Flows	209
8.5	Currency Risk Management in the Multinational Corporation	211
8.6	Summary	224
	Key Terms	224
	Conceptual Questions	225
	Problems	225
	Suggested Readings	226
	Appendix 8A: The Rationale for Hedging Currency Risk	227
	Key Terms	237
	Conceptual Questions	237
	Problems	237
	Suggested Readings	238

CHAPTER 9		
	Managing Transaction Exposure to Currency Risk	239
	Executive Summary	239
	9.1 An Example of Transaction Exposure to Currency Risk	239
	9.2 Managing Transaction Exposures Internally	240
	9.3 Managing Transaction Exposure in Financial Markets	247
	9.4 Treasury Management in Practice	255
	9.5 Summary	260
	Key Terms	261
	Conceptual Questions	261
	Problems	261
	Suggested Readings	263

CHAPTER 10		
	Managing Operating Exposure to Currency Risk	265
	Executive Summary	265
	10.1 Operating Exposures to Currency Risk	265
	10.2 The Exposure of Shareholders' Equity	269
	10.3 Managing Operating Exposure in the Financial Markets	274
	10.4 Managing Operating Exposure through Operations	279
	10.5 Pricing Strategy and the Firm's Competitive Environment	281
	10.6 Summary	285
	Key Terms	286
	Conceptual Questions	286
	Problems	286
	Suggested Readings	288

CHAPTER 11		
	Managing Translation Exposure and Accounting for Financial Transactions	291
	Executive Summary	291
	11.1 The Current Rate Method of Financial Accounting	
	Standard No. 52	291
	11.2 Corporate Hedging of Translation Exposure	294
	11.3 Accounting for Financial Market Transactions	298
	11.4 Accounting, Disclosure, and Corporate Hedging Activities	304
	11.5 Summary	307
	Key Terms	308
	Conceptual Questions	308
	Problems	309
	Suggested Readings	311

PART FOUR

Valuation and the Structure of Multinational Operations

CHAPTER 12		
	Foreign Market Entry and Country Risk Management	315
	Executive Summary	315
	12.1 Strategic Entry into International Markets	316
	12.2 Country Risk Assessment	322

12.3	Strategies for Managing Country Risk	331
12.4	Protecting the Multinational's Competitive Advantages	338
12.5	Summary	342
	Key Terms	343
	Conceptual Questions	343
	Problems	344
	Suggested Readings	345
CHAPTER 13		
	Multinational Capital Budgeting	347
	Executive Summary	347
13.1	The Algebra of Multinational Capital Budgeting	347
13.2	An Example: Wendy's Restaurant in Neverland	350
13.3	International Parity Disequilibria	354
13.4	Special Circumstances in Cross-Border Investments	360
13.5	Summary	367
	Key Terms	368
	Conceptual Questions	368
	Problems	368
	Suggested Readings	373
CHAPTER 14		
	Multinational Capital Structure and Cost of Capital	375
	Executive Summary	375
14.1	Capital Structure and the Cost of Capital	375
14.2	Project Valuation and the Cost of Capital	380
14.3	The Cost of Capital on Multinational Operations	390
14.4	Sources of Funds for Multinational Operations	394
14.5	The International Evidence on Capital Structure	401
14.6	Summary	402
	Key Terms	403
	Conceptual Questions	404
	Problems	405
	Suggested Readings	408
CHAPTER 15		
	Taxes and Multinational Corporate Strategy	411
	Executive Summary	411
15.1	The Objectives of National Tax Policy	411
15.2	Types of Taxation	413
15.3	U.S. Taxation of Foreign-Source Income	417
15.4	Taxes and Organizational Form	423
15.5	Transfer Pricing and Tax Planning	425
15.6	Taxes and the Location of Foreign Assets and Liabilities	428
15.7	Summary	432
	Key Terms	433
	Conceptual Questions	433
	Problems	434
	Suggested Readings	435

CHAPTER 16

Real Options and Cross-Border Investment Strategy	437
Executive Summary	437
16.1 Real Options and the Theory and Practice of Investment	437
16.2 Market Entry as a Simple Real Option	439
16.3 Uncertainty and the Value of the Option to Invest	447
16.4 Market Entry as a Compound Real Option	451
16.5 The Real Option Approach as a Complement to Net Present Value	454
16.6 Summary	457
Key Terms	458
Conceptual Questions	458
Problems	458
Suggested Readings	462

CHAPTER 17

Corporate Governance and the International Market for Corporate Control	465
Executive Summary	465
17.1 Corporate Governance	466
17.2 The International Market for Corporate Control	478
17.3 The International Evidence on Mergers and Acquisitions	484
17.4 Summary	488
Key Terms	489
Conceptual Questions	489
Problems	490
Suggested Readings	491

PART FIVE

International Portfolio Investment and Asset Pricing

CHAPTER 18

International Capital Markets	495
Executive Summary	495
18.1 Domestic and International Bond Markets	495
18.2 Domestic and International Stock Markets	502
18.3 International Investment Vehicles	510
18.4 Share Prices in International Markets	515
18.5 Asset Allocation Policy and Investment Style	519
18.6 Cross-Border Financial Statement Analysis	521
18.7 Summary	524
Key Terms	526
Conceptual Questions	526
Problems	527
Suggested Readings	528

CHAPTER 19

International Portfolio Diversification	531
Executive Summary	531
19.1 The Algebra of Portfolio Diversification	531

19.2	Returns on Foreign Investments	541
19.3	The Benefits of International Portfolio Diversification	548
19.4	Home Bias	551
19.5	Summary	557
	Key Terms	558
	Conceptual Questions	558
	Problems	559
	Suggested Readings	560
CHAPTER 20		
	International Asset Pricing	563
	Executive Summary	563
20.1	The International Capital Asset Pricing Model	563
20.2	Factor Models and Arbitrage Pricing Theory	568
20.3	Factor Models for International Assets	571
20.4	Momentum Strategies	580
20.5	Contemporary Asset Pricing Models	582
20.6	Summary	583
	Key Terms	584
	Conceptual Questions	584
	Problems	585
	Suggested Readings	588
	Notes	591
	Solutions to Even-Numbered Problems	607
	Symbols and Acronyms	635
	Useful Rules and Formulas	637
	Useful Websites	641
	Glossary	643
	Index	663