SCHOOL OF ACCOUNTING AND FINANCE

ACCY/FIN 241, International Financial Management

Subject Program
Autumn Session 2003

Lectures:       Tuesday  16.30 – 17.30  40.131
                Thursday 16.30 – 17.30  25.107

Co-ordinator and Lecturer
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                                Fax:    02 4221 4297

Subject Description

International Financial Management is designed to give students appreciation and expertise in
the recognition and use of financial tools in an international context. The subject will cover
the techniques of finance and will then relate them to international financial institutions and
practices. Throughout the course the student will learn to evaluate the risk and expected
return from international investment markets.

Objectives

Upon completion of the course the student will be able to

1. Identify and use appropriate financial tools and techniques for international financial
   management.

2. Explain and evaluate the techniques and the ramifications of risk and return in an
   international context.
3. Describe the sources of long term debt and equity capital in the international marketplace.

**Prescribed texts**


**Other useful texts**


**Subject Requirements and Assessments**

For the purpose of determining final grades students’ performance will be evaluated on the following components of assessment:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Assignment</td>
<td>20%</td>
</tr>
<tr>
<td>Essay</td>
<td>20%</td>
</tr>
<tr>
<td>Final Examination</td>
<td>50%</td>
</tr>
<tr>
<td>Tutorial problems and participation</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
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Note: To be awarded a Pass or higher grade in this subject, student must achieve at least 40% marks in the final examination. The marks are subject to scaling at the course coordinator’s discretion.

**Dates to remember**

<table>
<thead>
<tr>
<th>Component</th>
<th>Date</th>
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<tbody>
<tr>
<td>Assignment submission</td>
<td>Tutorial – Week 5  (Beginning – 08/04/02)</td>
</tr>
<tr>
<td>Essay</td>
<td>Tutorial – Week 10 (Beginning – 13/05/02)</td>
</tr>
</tbody>
</table>

**Tutorial Attendance**

Attendance at the tutorials is a compulsory requirement of the subject. A minimum of 90% of attendance is required in tutorials. Any student who fails this criteria will automatically fail subject to proper documentation according to University of Wollongong policy guidelines.
A schedule of the questions to be prepared for each tutorial is attached. These **questions must be attempted before the tutorial.** Attempted solutions to the tutorial problems are to be submitted to the tutors as required. Further details in this regard will be provided by the tutors. **Students observed copying other work produced by any student, past or present will automatically fail this subject.**

Tutorials begin in week 2 and finish in week 13.

While awarding the marks for tutorial work, your preparation and participation in weekly tutorial discussions will be taken into consideration. **Marks are not awarded for attendance only.**

Students will be able to seek help from tutors during their consultation times. Tutors will indicate their availability at the first tutorial and their consultations times will be posted on their doors.

**Access to solutions**

The copies of the solutions of the previous week’s tutorial problems will be placed each Monday in the Faculty of Commerce Resource & Student Information Room in Building 40. Students are advised to refer to the solutions provided. Copies of lecture notes and power point slides will not be available and students are therefore strongly encouraged to take comprehensive notes during lectures.

**Public Holidays**

If you have a tutorial that falls on a public holiday, please consult the list of tutorial times and locations on the Department of Accounting and Finance Notice Board, third floor, Bldg. 40 and select an alternative time to attend the tutorial for that week.

**Submission by Facsimile**

Please note the University policy covering the submission of assignment by facsimile (fax) in the Undergraduate calendar. Generally assignments will not be accepted or marked if submitted by facsimile.

**Examinations**

The examinations will be based on the subject matter covered in the weekly lectures and/or tutorials. You may study from material with explanations provided in the textbooks, other examples given in the textbooks and supplementary reading material, your notes and tutorial works. The objective of the examination is to test your understanding of the material covered rather than your memory. Students are generally to study individually and to gain personal understanding without reliance on any other group. The final examination is **closed book.**

**Assignment 1: Questions.** (There are three questions. All the three questions must be attempted).
Question 1. (Marks 2.5)

You take out a $100,000 housing mortgage repayable over 20 years at an interest rate of 10 per cent annum. Interest is compounded monthly and payments are made monthly.

a. What are your monthly repayments?

b. What is the total of payments over your loan? How much of that total is interest?

c. If the interest is compounded yearly and payments are made yearly, then What is the total of payments over your loan? How much of that total is interest?

Question 1A. (Marks 2.5)

You are looking for a new home and discover three houses of the same relative size in the same suburb, all priced at $155,000. They are offered by three different sellers, each willing to provide individual finance. The first offers a 25 year loan fixed at 6.39%. The second offers a 30 year loan fixed at 6.18%. The third offers an interest-only loan for 18 years, with payments of 50,000 at each of the 6 year anniversary dates, at 8%. Since all the houses appeal to you the same, which loan would you choose? Explain your reasoning mathematically. All sellers provide for monthly repayments in arrears. Assume all months to be 30 days.

Question 2. (Marks 5)

Look in a recent issue of the Australian Financial Review at the share prices reported in the Market Section near the back of the paper. Choose one company at random.

a. State the name of the Company and its ASX Number.

b. In regard to your company, give the following
   i. Annual dividend payment
   ii. Dividend yield on shares

c. What is the P/E ratio on the shares of the company?

d. Assume that the dividend payment is expected to grow at the rate of 5% per annum, what is the expected rate of return?

e. Given your results for the above data, would you invest in this company? Why or why not?

Question 3. (Marks 10)

Arco General is considering a manufacturing proposal to manufacture new insulation tiles for high altitude aircraft. The project would require use of a warehouse with a rental expense of $100,000 per annum in the first year. The rent is expected to grow at the rate of 4 per cent per annum thereafter. The proposal envisages an investment in plant and machinery of $1.5 million. This could be depreciated straight-line over a period of ten years, with no salvage value at the end of the period. The project requires an initial investment in the working capital of $300,000. Thereafter the working capital is forecast to be ten percent of sales in each of years 1 to 10. The sales during the year 1 are expected to be $4.6 million. Thereafter the sales are forecast to grow by 6 percent a year. Manufacturing costs are expected to be 72.5% of sales. Profits are subjected to company tax at 30 per cent payable immediately. The
cost of capital is 9% per annum. What is the net present value of Arco's project at the given cost of capital?

**Required**
Also calculate the net present value of the project using the following costs of capital: 0%, 5%, 10%, 15%, 20%, 25% and 30%. Plot a graph between cost of capital and net present value of the project. From the graph find the internal rate of return of the project. Explain your result giving reasons.

**Assignment 2 - Essay**

The topics of the essay are given below. Additional topics will be handed out by the course coordinator before the end of week 2.

**Topic One:**

Topic Two:
“If using debt can increase profits, why not finance all of a firm’s capital using debt?”

Topic Three:
“Firms’ share prices contain all the information one needs to make a decision whether to purchase shares in them or not. All the players know everything anyway, so analysis is useless in investment decisions.”

Topic Four:

Critically evaluate the above statement, giving the reasons for agreeing or disagreeing with it. The role of various players in the international financial markets should be discussed using real-world examples.

Length of the essay. 2000 words

Due date: The essay is due on Tutorial (Week 10, Beginning 13/05/02)

**Assessment Criteria**

Please prevent penalties by reading the assessment criteria carefully and ensuring that you adhere to them.

1. **Synopsis:** Every essay must have a synopsis. Synopsis should cover the outline of your main arguments and the general conclusions you have reached. The recommended length of
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synopsis is around 5 to 10 per cent of the total length of the essay. No material should be presented in the synopsis which is not covered in the text of the essay. The synopsis should provide a clear structural and material preview to the presentation of the essay.

2. **Structure & Presentation:** The structure of your essay should support logical coherence and flow of your arguments. The essay should be well presented and grammatically correct. Students needing help with grammar and presentation should contact the Learning Development Centre in the offices above the bookstore early in the term. The University provides this service free of charge and there is, therefore, no excuse for sloppy grammar, misspelling or structural defects inappropriate for university submissions.

3. **Content:** The content of the essay should be relevant to the topic of the essay. How logical and coherent are the arguments you use to establish and support your point of view?

4. **Style:** Does your writing style such as grammar usages, language, sentence construction, length of the essay, add to the flow of the essay?

5. **Referencing:** A prescribed method of referencing should be followed. Any work presented which is not properly referenced will be deemed to have been plagiarised and will be submitted to the University of Wollongong for disciplinary proceedings. **No instance of plagiarism will be tolerated at all in this course.** Students have been expelled from the University of Wollongong for plagiarism. In addition, your references should support your arguments clearly.

**Mandatory essay presentation standards are as follows**

1. The essay is to be typed, double spaced, on one side of the paper only. A computer word processing package should be used for typing.

2. Two copies of the essay are to be submitted. Students should ensure that they are in a position to provide another copy of the essay, if requested to do so. Only one copy of the essay will be returned to the student, with appropriate marks and comments.

3. Late submission of the essay is not acceptable without prior arrangement. Late submission will attract penalty (10% per day) according to the university rules. Problems with computers, softwares, lost disks etc. will not be accepted as excuses for late submission. Students have failed this course from late submission. Any student failing to hand in work without proper medical documentation according to University of Wollongong policy ten (10) days after due date will be deemed to have failed this subject.

4. All the pages should be numbered serially.

5. The cover sheet of the essay must bear the student number, name, tutorial class, due date of the essay and topic of the essay.

6. There are penalties for failure to meet any of these guidelines.
Students not submitting any work by the last day of the classes, in the absence of an acceptable documented reason, will automatically fail the subject and be prohibited from sitting the final examination.

Assignment Cover sheet

A cover sheet should be attached to all assignments including the essay. The following information should be clearly given on the cover sheet.

- Your student number and name
- Your tutor and tutor group
- The topic of the essay
- A signed declaration using the following words

I have read and adopted the University of Wollongong Acknowledgment Practice Code as set out in the Undergraduate Calendar.

Signed___________________________________Date________________________

Supplementary Examination

Supplementary examinations will be conducted in accordance with university rules as set out in the Undergraduate Calendar and the Department of Accounting and Finance policy statement. This policy statement is available in the Faculty of Commerce Resource Room, Bldg. 40, and on the University of Wollongong website.

Plagiarism and Academic Misconduct

The University of Wollongong regards academic misconduct as a very serious matter. Cases of plagiarism and academic misconduct are severely penalised. The students are advised to read the university rules in this regard carefully and follow these rules diligently in their own interest. Students found guilty of academic misconduct may be expelled from the university. Examples of academic conduct include, but are not limited to, instances where:

- Students forge another student’s name on a class tutorial role.
- Students plagiarising work from another student, past or present, or an unacknowledged author.
- Students failing to properly acknowledge sources of work gleaned from articles, texts and the internet.
- Students improperly gaining knowledge of examination material and failing to disclose their acquisition of that knowledge prior to sitting the relevant examination.

Plagiarism is defined as any instance where an author (student in this case) uses work, ideas, or some product of another person and does not acknowledge thoroughly the original source of the material. Students are caught every year plagiarising material from published authors and other students. For this reason, except as directed by your lecturer, students should be aware that there is a prohibition against any student using work of another student past or present, including past class notes or exercises. Any student who uses material
produced by another student, except as above instructed, will automatically fail this subject.

Special Consideration

If a student is affected by serious illness or other circumstances beyond his or her control, he or she may request that the unusual circumstances may be taken into consideration while assessing the performance in the subject. The university rules in regard to this are given in the University calendar and on the University website. Students who may get into the unfortunate positions mentioned above may note the following:

1. The formal letter requesting special consideration should be submitted to the university administration.

2. Subject coordinator should be informed of the unfortunate circumstances immediately when they arise. The information given should include contact address and telephone number. Students who encounter unfortunate circumstances should contact the subject coordinator prior to any affected due date for assessment tasks. Students who fail to hand in work and then obtain supporting documentation after the due date are normally investigated thoroughly and regarded suspiciously. You should communicate with your course coordinator openly regarding special and/or difficult circumstances which arise.

Disability

If a student with a disability requires accommodation in the subject the issue may be discussed with the subject coordinator, Faculty Disability Advisor, or the Disability Liaison Officer in Student Services early in the session. All reasonable accommodation of special disabilities will be provided.
# Subject Schedule

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<tr>
<th>Week</th>
<th>Beginning</th>
<th>Topic</th>
<th>Readings</th>
<th>Tutorial Questions</th>
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<tr>
<td>1</td>
<td>03/03</td>
<td>Present value</td>
<td>PCF Ch. 1 &amp; 2</td>
<td></td>
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<tr>
<td>2</td>
<td>10/03</td>
<td>Valuation of Shares</td>
<td>PCF Ch. 3 &amp; 4</td>
<td>PCF Ch. 1, QP – 1,2 Ch. 2, QP – 1,4,6</td>
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<tr>
<td>3</td>
<td>17/3</td>
<td>Investment decisions</td>
<td>PCF Ch. 5 &amp; 6</td>
<td>PCF Ch. 3, QP – 1,2, 5,6,26 Ch. 4, QP – 5,7,8</td>
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<td>4</td>
<td>24/3</td>
<td>Risk and Return</td>
<td>PCF Ch. 7 &amp; 8</td>
<td>PCF Ch. 5, QP – 5,6,9 Ch. 6, QP - 8</td>
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<tr>
<td>5</td>
<td>31/03</td>
<td>Financing Decisions</td>
<td>PCF Ch. 14 &amp; 15</td>
<td>PCF Ch. 7, QZ – 4,5 QP–4,6 Ch. 8, QP – 1,3,7,12</td>
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<td>6</td>
<td>07/4</td>
<td>Dividend Policy &amp; Debt financing</td>
<td>PCF Ch. 16 &amp; 23</td>
<td>PCF Ch. 14, QZ – 1,3,5 Ch. 15, QZ– 4,5, QP6,7</td>
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<tr>
<td>7</td>
<td>14/4</td>
<td>Debt Financing – contd. Introduction to international finance</td>
<td>PCF Ch 24 IFM Ch 1</td>
<td>PCF Ch.16, QZ – 2,3,8 Ch.23, QZ – 2,3.</td>
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**Midterm break 18 April-27 April 😊**

| 8    | 28/4     | Foreign Exchange Markets | IFM Ch. 3 | PCF Ch. 24, QZ – 1,4 IFM Ch. 1, Q – 1,2,6,7,8 |
| 9    | 05/5     | Eurocurrency Markets | IFM Ch. 9 | IFM Ch.3, Ex. – 1,2,3,4. |
| 10   | 12/5     | International Bond Portfolios | IFM Ch. 14 | IFM Ch.9, Ex. – 1,4,5 |
| 11   | 19/05    | International Equity Portfolios | IFM Ch. 15 | IFM Ch. 14, Ex- 1,2, Q – 3,11 |
| 12   | 26/05    | International Investment Decisions | PCF Ch. 34 | IFM Ch. 15, Ex – 1,2,3 |
| 13   | 02/06    | Managing risks in International Financial Positions. | IFM Ch. 16 | PCF Ch. 34, QZ – 1,4,6,7 |

QP – Questions and Problems; QZ – Quiz; Q - Question; Ex – Exercise.