

# Multinational Business Finance

FIFTEENTH EDITION

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# Preface

## New to This Edition

Our continuing challenge is to strike a balance between being one of the very first textbooks in this field (and therefore in many ways defining the field) and introducing the many new concepts and components in global business today, from crowdfunding to blockchain. We therefore have hopefully found some balance between what is valued by continuing adopters and the valued insights of selected reviewers—the *innovator's dilemma*. Surveys of adopters were extremely useful in this revision, and a number of specific developments were included.

- **The Impossible Trinity.** A core international financial principle, the *Impossible Trinity's* use as a unifying theoretical link across multiple subjects and chapters has been expanded.
- **The Foreign Exchange Market and Digital Trade.** New material in this edition explores in depth how the changing structure of the global foreign exchange market—trading, communication, and settlement—is posing challenges for private players and public regulators and overseers.
- **Translation Exposure Expansion.** Translation exposure, a cross-section of international finance, economics, and accounting, has been renewed and expanded to more effectively cover its wider theoretical and practical applications in industry.
- **Financing of Foreign Subsidiaries.** Always a topic unique to the field of multinational finance, our discussion of subsidiary funding sources and practices has been expanded to include recent developments and changing access to capital.
- **International Taxation.** The seismic changes introduced by the United States effective on January 1, 2018, have been highlighted in exploration of how taxation alters the fundamental financial management activities of global companies from Apple to Caterpillar.
- **Political Risk and Financial Losses.** The chapter on foreign direct investment and political risk has been revised to reflect the growing use of restrictions on convertibility, transferability, and the possibility of repudiation or expropriation.
- **New and Edgier Mini-Cases.** Eight of the 18 mini-cases are completely new to the fifteenth edition, and explore many of the edgier debates rising between global business, social policy, and corporate social responsibility. Topics include Argentine debt and vulture investors, Apple's global tax structure, Brexit and its potential impact on Rolls-Royce, Volkswagen's governance structure and its defeat device strategy, and political risk in Kazakhstan's oil and gas industry, to name a few.
- **Expanded Quantitative Applications.** We have worked diligently to increase the quantitative elements across subjects and chapters to push students to explore the depth of analysis and comprehension. *Multinational Business Finance*, Fifteenth Edition includes more than **250 end-of-chapter problems**, all solved within Excel. We have also continued to present problems that are based on real-world applications and challenges, something we believe in very strongly.



## Solving Teaching and Learning Challenges

**Multinational Business Finance** is the financial management of multinational enterprises (MNEs)—*multinational financial management*. MNEs are firms and organizations of all kinds and sizes—for-profit companies, family-owned businesses, sovereign states, and NGOs, among others—that have operations in more than one country and conduct their activities through a multitude of structures and contracts from wholly owned foreign subsidiaries to joint ventures with local or global partners to host governments.

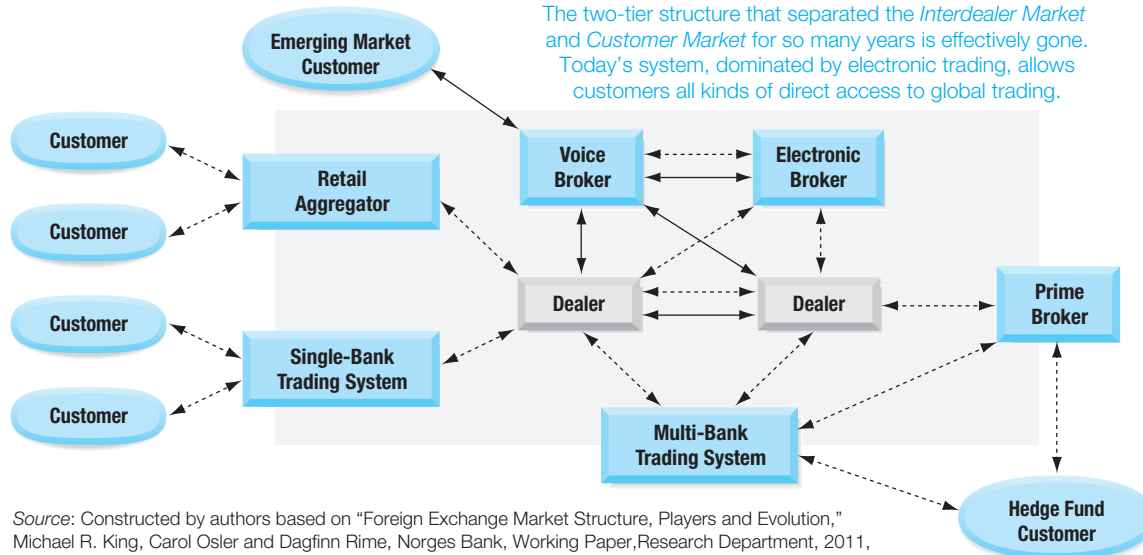
Moreover, global business and finance, all the way down to the trading of currencies, has been revolutionized by digital platforms from electronic trading to blockchain contracts in complex international trade transactions.

*Multinational Business Finance*, Fifteenth Edition, is aimed at university level courses in international financial management, international business finance, international finance, and similar titles. It can be used at either the graduate level or in executive education and corporate learning courses.

A prerequisite course or experience in corporate finance or financial management would be ideal. However, we review the basic finance concepts before we extend them to the multinational case. We also review the basic concepts of international economics and international business.

Over many years and many editions, as we ourselves have used the book in courses from Hyderabad to Helsinki to Honolulu, we have observed an ever-widening audience for this book.



**EXHIBIT 5.4 The Foreign Exchange Market Today**

Source: Constructed by authors based on "Foreign Exchange Market Structure, Players and Evolution," Michael R. King, Carol Osler and Dagfinn Rime, Norges Bank, Working Paper, Research Department, 2011, 10, p. 21, and "The anatomy of the global FX market through the lens of the 2013 Triennial Survey," by Dagfinn Rime and Andreas Schrimpf, *BIS Quarterly Review*, December 2013.

We continue to try and service this greater global audience with multi-country companies, markets, and challenges, whether in theoretical applications, practice boxes, mini-cases, or end-of-chapter problems.

## Organization

*Multinational Business Finance* has been redesigned and restructured for tightness—critical elements of the field but in a much shorter delivery framework. This has been accomplished by integrating a number of previous topics along financial management threads. The book is in five parts, the parts unified by the common thread of the globalization process by which a firm moves from a domestic to a multinational business orientation.

- Part 1 introduces the global financial environment
- Part 2 explains foreign exchange theory and markets
- Part 3 explores foreign exchange rate exposure
- Part 4 details the financing of the global firm
- Part 5 analyzes international investment decisions

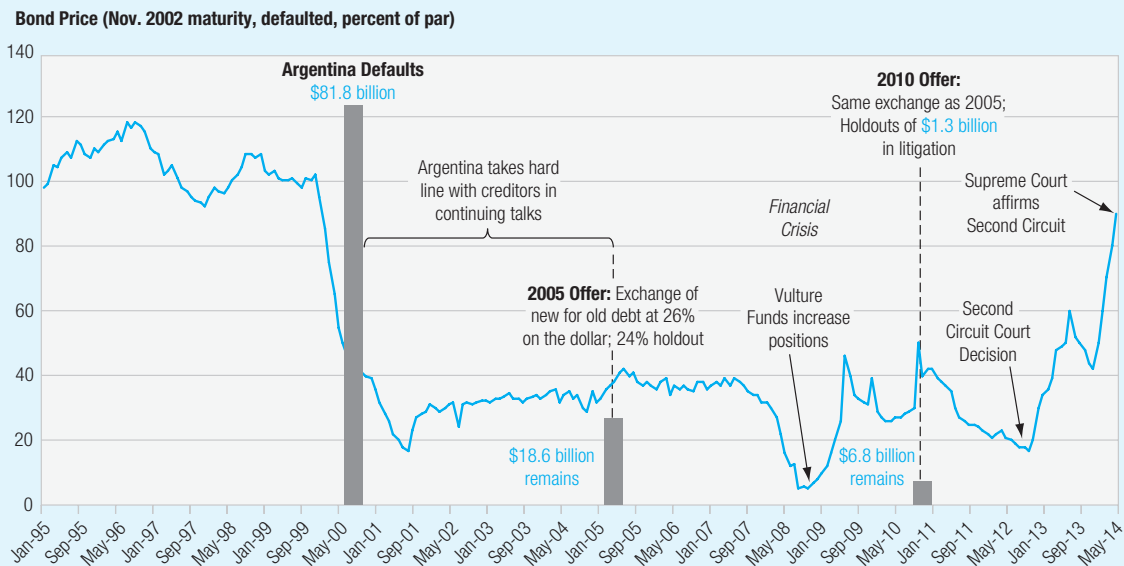
## Pedagogical Tools

To make the book as comprehensible as possible, we use a large number of proven pedagogical tools. Again, our efforts have been informed by the detailed reviews and suggestions of

a panel of professors who are recognized individually for excellence in the field of international finance, particularly at the undergraduate level. Among these pedagogical tools are the following:

- A student-friendly writing style combined with a structured presentation of material, beginning with *learning objectives* for each chapter, and ending with a summarization of how those learning objectives were realized.
- A wealth of *illustrations and exhibits* to provide a visual parallel to the concepts and content presented.
- A running case on a hypothetical U.S.-based firm, *Ganado Corporation*, provides a cohesive framework for the multifaceted globalization process, and is reinforced in several end-of-chapter problems.
- A *mini-case* at the end of each chapter illustrates the chapter content and extends it to the multinational financial business environment.

#### EXHIBIT A Argentine Sovereign Bond Price and Default (Due Nov. 2002/Defaulted)



New mini-cases in this edition include, among others, the following:

- Globalization—or not—of the Chinese renminbi
- Volkswagen’s corporate governance and its diesel defeat device
- Rolls-Royce’s currency challenges with Brexit
- Electrolux of Sweden’s newly restructured global currency management program
- Ferrari’s IPO and acceptance of slow revenue and cash flow growth
- Tengiz—understanding political risk in one of the largest oil and gas investments in the world

- *Global Finance in Practice* boxes in every chapter highlight how real firms and real managers deal with the never-ending complexity of executing global business deals in a changing marketplace, from the mundane accounts payable to the exceptional expropriation. These applications extend the concepts without adding to the length of the text itself.

### GLOBAL FINANCE IN PRACTICE 13.1



#### Brexit and the Cost of Capital

The decision for the United Kingdom to leave the European Union is resulting in more and more companies having a higher cost of capital on both sides of the Channel. A restructuring of the banking sectors in both sectors involves direct costs as well as more segmented markets. All at a time when global interest rates—dollar, pound, and euro—are expected to start rising as the residual impacts of the financial crisis fall further and further into the past.

**Impacts on Banks.** Banks in the UK are already incurring sizable restructuring costs. A number of London banks have been moving quickly to move large portions of their operations and jobs to the Continent in an effort to retain clients and market share. London banks are estimating that restructuring costs alone may range between \$200 million and \$400 million. The costs of capital for banks themselves are expected to rise at least 4%, and many are looking to increase their capital bases by more than 30% as they establish European banks to retain Continental clients.

**Impacts on Borrowers.** One of the unintended results is a multitude of banks are reducing their lines of credit and increasing their fees to many of the small- to medium-sized enterprises. Companies with annual revenue of up to

€10 million are defined as *small businesses*, firms with revenue between €10 and €50 million are *medium-sized* according to the European Union. This segment of borrowers is particularly sensitive to these changes as many of these firms use only one bank for the majority of their financial services. Without alternative banks, either offering alternative services or competitive rates, they are starting to feel the impacts of reduced services and increased costs. As bank fees and alternatives shrink, most borrowers are expecting to see rising costs of debt throughout 2018 and 2019.

How this will ultimately impact business activity is hard to say, but early signs from these segments are not encouraging. Some experts, including Professor Aswath Damodaran of New York University's Stern School of Business, have been encouraging companies to focus on the three drivers of business valuation—cash flows, growth rates, and discount rates—and not fall victim to pessimism. He has characterized Brexit as a "garden variety crisis" that most businesses should endure.

A number of firms, however, are beginning to cut back on new investment projects. Rising capital costs make fewer prospective investments financially viable. A number of borrowers have noted that their firms will intentionally now work to increase their cash balances—a form of precautionary source of funds—as they fear reduced access to affordable debt.

- Every chapter has a number of end-of-chapter exercises requiring the use of the Internet, while a variety of Internet references are dispersed throughout the chapters in text and exhibits.
- A multitude of end-of-chapter questions and problems, which assess the students' understanding of the course material. All end-of-chapter problems are solved using spreadsheet solutions. Selected end-of-chapter problem answers are included at the back of this book.
- Numerous mathematical derivations, such as parity conditions, foreign currency option pricing, and complex option products, are placed in appendices. This allows selective use as the student or faculty member feels appropriate.

## MyLab Finance

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Supplements available to instructors at <a href="http://www.pearsonhighered.com/irc">www.pearsonhighered.com/irc</a>	Features of the Supplement
<b>Instructor's Solution Manual</b> prepared by the authors	<ul style="list-style-type: none"> <li>■ Complete answers to all end-of-chapter questions, problems, and chapter mini-cases</li> <li>■ All quantitative end-of-chapter problems are solved using spreadsheets</li> </ul>
<b>Test Bank</b> authored by Rodrigo Hernandez from Radford University	1,200 multiple-choice, true/false, short-answer, and short-essay questions with these annotations: <ul style="list-style-type: none"> <li>■ Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)</li> <li>■ Topic</li> <li>■ Learning outcome</li> <li>■ Category (Recognition, conceptual, analytical)</li> <li>■ AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)</li> </ul>



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<b>PowerPoints</b> authored by Sonya Lutter from Kansas State University	Slides include all the graphs, tables, and equations in the textbook. Two set of the slides are available—for chapters and for mini-cases.  PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to: <ul style="list-style-type: none"> <li>■ Keyboard and Screen Reader access</li> <li>■ Alternative text for images</li> <li>■ High color contrast between background and foreground colors</li> </ul>

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