

MULTINATIONAL BUSINESS FINANCE

GLOBAL EDITION

THIRTEENTH EDITION

David K.
EITEMAN

University of California,
Los Angeles

Arthur I.
STONEHILL

Oregon State University
and the University
of Hawaii at Manoa

Michael H.
MOFFETT

Thunderbird School
of Global Management

PEARSON

Boston Columbus Indianapolis New York San Francisco Upper Saddle River
Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montreal Toronto
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

Contents

PART I Global Financial Environment 21

Chapter 1 Current Multinational Financial Challenges 21

Financial Globalization and Risk 21

The Global Financial Marketplace 23

The Theory of Comparative Advantage 29

What Is Different About International Financial Management? 31

Market Imperfections: A Rationale for the Existence of the Multinational Firm 32

The Globalization Process 33

Summary Points 37

MINI-CASE: Nine Dragons Paper and the 2009 Credit Crisis 37

Questions ■ Problems ■ Internet Exercises 44

Chapter 2 Ownership and Governance of the Corporation 47

Who Owns the Business? 47

The Goal of Management 50

Summary Points 69

MINI-CASE: Luxury Wars—LVMH vs. Hermès 69

Questions ■ Problems ■ Internet Exercises 75

Chapter 3 The International Monetary System 79

History of the International Monetary System 79

IMF Classification of Currency Regimes 86

Fixed Versus Flexible Exchange Rates 88

A Single Currency for Europe: The Euro 90

Emerging Markets and Regime Choices 94

Exchange Rate Regimes: What Lies Ahead? 97

Summary Points 98

MINI-CASE: The Yuan Goes Global 99

Questions ■ Problems ■ Internet Exercises 104

Chapter 4 The Balance of Payments 107

Typical Balance of Payments Transactions 108

Fundamentals of Balance of Payments Accounting 108

The Accounts of the Balance of Payments 110

The Capital and Financial Accounts 112

Breaking the Rules: China's Twin Surpluses 117

The Balance of Payments in Total 119

The Balance of Payments Interaction with Key Macroeconomic Variables 121

Trade Balances and Exchange Rates 124

Capital Mobility 126

Summary Points 132

MINI-CASE: Global Remittances 133

Questions ■ Problems ■ Internet Exercises 137

Chapter 5 The U.S. and European Financial Crises 142

- The Credit Crisis of 2008–2009 142
- Global Contagion 152
- The European Debt Crisis of 2009–2012 158
- Summary Points 170
- MINI-CASE:** The Trouble with LIBOR 171
- Questions ■ Problems ■ Internet Exercises 173

PART II Foreign Exchange Theory 179

Chapter 6 The Foreign Exchange Market 180

- Geographical Extent of the Foreign Exchange Market 180
- Functions of the Foreign Exchange Market 182
- Market Participants 182
- Transactions in the Foreign Exchange Market 185
- Size of the Foreign Exchange Market 188
- Foreign Exchange Rates and Quotations 190
- Summary Points 199
- MINI-CASE:** The Saga of the Venezuelan Bolivar Fuerte 200
- Questions ■ Problems ■ Internet Exercises 202

Chapter 7 International Parity Conditions 207

- Prices and Exchange Rates 207
- Exchange Rate Pass-Through 214
- The Forward Rate 216
- Prices, Interest Rates, and Exchange Rates in Equilibrium 224
- Summary Points 226
- MINI-CASE:** Emerging Market Carry Trades 227
- Questions ■ Problems ■ Internet Exercises 228
- Appendix: An Algebraic Primer to International Parity Conditions 234

Chapter 8 Currency Derivatives 238

- Foreign Currency Futures 239
- Option Pricing and Valuation 249
- Interest Rate Derivatives 253
- Summary Points 257
- MINI-CASE:** McDonald's Corporation's British Pound Exposure 258
- Questions ■ Problems ■ Internet Exercises 259

PART III Multinational Exchange Rate Exposure 267

Chapter 9 The Determinants of Exchange Rates 268

- Exchange Rate Determination: The Theoretical Thread 270
- Currency Market Intervention 274
- Disequilibrium: Exchange Rates in Emerging Markets 277
- Forecasting in Practice 285
- Summary Points 290
- MINI-CASE:** The Japanese Yen Intervention of 2010 291
- Questions ■ Problems ■ Internet Exercises 293

Chapter 10 Transaction Exposure Management 297

Types of Foreign Exchange Exposure 297

Trident's Transaction Exposure 302

Summary Points 312

MINI-CASE: Banbury Impex (India) 313

Questions ■ Problems ■ Internet Exercises 317

Appendix: Complex Option Hedges 323

Chapter 11 Translation Exposure Management 331

Overview of Translation 331

Translation Methods 332

U.S. Translation Procedures 334

Trident Corporation's Translation Exposure 335

Trident Corporation's Translation Exposure: Income 336

Summary Points 342

MINI-CASE: LaJolla Engineering Services 342

Questions ■ Problems 345

Chapter 12 Operating Exposure Management 348

Trident Corporation: A Multinational's Operating Exposure 348

Measuring Operating Exposure: Trident Germany 353

Strategic Management of Operating Exposure 358

Proactive Management of Operating Exposure 359

Summary Points 365

MINI-CASE: Toyota's European Operating Exposure 365

Questions ■ Problems ■ Internet Exercises 368

PART IV Financing the Multinational Firm 371**Chapter 13 The Global Cost of Capital 372**

Financial Globalization and Strategy 372

The Demand for Foreign Securities: The Role of International Portfolio Investors 380

The Cost of Capital for MNEs Compared to Domestic Firms 385

The Riddle: Is the Cost of Capital Higher for MNEs? 387

Summary Points 388

MINI-CASE: Novo Industri A/S (Novo) 389

Questions ■ Problems ■ Internet Exercises 393

Chapter 14 International Debt and Equity Financing 398

Designing a Strategy to Source Capital Globally 398

Optimal Financial Structure 400

Raising Equity Globally 403

Depository Receipts 407

Private Placement 413

Foreign Equity Listing and Issuance 414

Raising Debt Globally 417

Summary Points 422

MINI-CASE: Korres Natural Products and the Greek Crisis 423

Questions ■ Problems ■ Internet Exercises 428

Appendix: Financial Structure of Foreign Subsidiaries 433

Chapter 15 Global Tax Management 437

Tax Principles 438

Summary Points 452

MINI-CASE: The U.S. Corporate Income Tax Conundrum 452

Questions ■ Problems ■ Internet Exercises 456

PART V Foreign Investment Decisions 461**Chapter 16 International Portfolio Theory 462**

International Diversification and Risk 440

Internationalizing the Domestic Portfolio 465

National Markets and Asset Performance 470

Market Performance Adjusted for Risk: The Sharpe and Treynor Performance Measures 472

Summary Points 475

MINI-CASE: Portfolio Theory, Black Swans, and [Avoiding] Being the Turkey 476

Questions ■ Problems ■ Internet Exercises 478

Chapter 17 Foreign Direct Investment: Returns and Risks 482

Sustaining and Transferring Competitive Advantage 482

Deciding Where to Invest 487

How to Invest Abroad: Modes of Foreign Involvement 488

Political Risk 491

Summary Points 507

MINI-CASE: Corporate Competition from the Emerging Markets 508

Questions ■ Internet Exercises 509

Chapter 18 Multinational Investment and Acquisition 512

Complexities of Budgeting for a Foreign Project 513

Project Versus Parent Valuation 514

Illustrative Case: Cemex Enters Indonesia 515

Project Financing 528

Summary Points 535

MINI-CASE: Yanzhou (China) Bids for Felix Resources (Australia) 536

Questions ■ Problems ■ Internet Exercises 543

PART VI Special Topics in Global Finance 549**Chapter 19 Financial Management of Multinational Operations 550**

Trident Brazil's Operating Cycle 550

Trident's Repositioning Decisions 552

Constraints on Repositioning Funds 553

Conduits for Moving Funds by Unbundling Them 554

International Dividend Remittances 555

Net Working Capital 556

International Cash Management 562

Financing Working Capital 568

Summary Points 571

MINI-CASE: Honeywell and Pakistan International Airways 572

Questions ■ Problems ■ Internet Exercises 574

Chapter 20 Global Petroleum Development: Fiscal Regimes and Funding 578

Financing Petroleum Development	579
Fiscal Regimes	579
Development Agreements	579
Concessions	581
Royalty/Tax Systems	583
Production Sharing Agreements	584
Service Agreements	586
Added Contractual Features	589
Top-Line Risks	591
Petroleum Prices	592
A Hypothetical Sub-Saharan PSA	593
PSA Evolution	598
Fiscal Regimes Today	599
Government and Policy Change	601
The Future	605
Funding Petroleum Development	605
Summary Points	609
MINI-CASE: Petroleum Development and the Curse of Oil	609
Questions ■ Problems ■ Internet Exercises	612

Answers to Selected End-of-Chapter Problems 614

Glossary 618

Index 634

Credits 654