

^EKJTKI SEOVOQK]

MULTINATIONAL FINANCIAL MANAGEMENT >

•a.ru a iUi/A ©BO'^
;ALM
University of Southern California

s?
//
~.v V

y
>nS V;
- V.
>/ \s\v

V;

a
\\x//
;v
V

WILEY

CONTENTS

PREFACE	XIII
SELECTED CURRENCIES AND SYMBOLS	XVII
SYMBOLS AND ACRONYMS	XIX

PART I ENVIRONMENT OF INTERNATIONAL FINANCIAL MANAGEMENT

1 INTRODUCTION: MULTINATIONAL ENTERPRISE AND MULTINATIONAL FINANCIAL MANAGEMENT	2	Theme of This Book	40
Learning Objectives	2	Relationship to Domestic Financial Management	41
1.1 The Rise of the Multinational Corporation	3	<i>Arbitrage</i>	41
Evolution of the Multinational Corporation	8	<i>Market Efficiency</i>	41
<i>Search for Raw Materials</i>	10	<i>Capital Asset Pricing</i>	42
<i>Market Seeking</i>	10	The Importance of Total Risk	43
<i>Cost Minimization</i>	13	The Global Financial Marketplace	43
<i>Knowledge Seeking</i>	16	The Role of the Financial Executive in an Efficient Market	44
<i>Keeping Domestic Customers</i>	17	1.4 Outline of the Book	44
<i>Exploiting Financial Market Imperfections</i>	17	Environment of International Financial Management	44
The Process of Overseas Expansion by Multinationals	17	Foreign Exchange and Derivatives Markets	45
<i>Exporting</i>	18	Foreign Exchange Risk Management	45
<i>Overseas Production</i>	18	Financing the Multinational Corporation	45
<i>Licensing</i>	19	Foreign Investment Analysis	45
<i>Trade-offs Between Alternative Modes of Overseas Expansion</i>	19	Multinational Working Capital Management	45
A Behavioral Definition of the Multinational Corporation	20	2 THE DETERMINATION OF EXCHANGE RATES	52
The Global Manager	23	Learning Objectives	52
1.2 The Internationalization of Business and Finance	23	2.1 Setting the Equilibrium Spot Exchange Rate	53
Political and Labor Union Concerns about Global Competition	24	Demand for a Currency	53
Consequences of Global Competition	31	Supply of a Currency	53
1.3 Multinational Financial Management: Theory and Practice	38	Factors That Affect the Equilibrium Exchange Rate	54
Criticisms of the Multinational Corporation	39	<i>Relative Inflation Rates</i>	54
Functions of Financial Management	39	<i>Relative Interest Rates'</i>	55

Relative <i>Economic Growth Rates</i>	55	Competitive Devaluations	101
Political and Economic Risk	55	Bretton Woods Conference and the Postwar Monetary System	101
Calculating Exchange Rate Changes	58	Role of the IMF	101.
2.2 Expectations and the Asset Market Model of Exchange Rates	59	Role of the World Bank	102
The Nature of Money and Currency Values	62	Role of the Bank for International Settlements	102
Central Bank Reputations and Currency Values	64	The Bretton Woods System: 1946-1971	104
Price Stability and Central Bank Independence	65	Lessons and Red Flags from Bretton Woods	105
Currency Boards	69	The Post-Bretton Woods System: 1971 to the Present	105
Dollarization	71	Assessment of the Floating-Rate System	109
Expectations and Currency Values	72	Increasing Currency Volatility	109
2.3 The Fundamentals of Central Bank Intervention	74	Requirements for Currency Stability	110
How Real Exchange Rates Affect Relative Competitiveness	74	3.3 The European Monetary System and Monetary Union	110
Foreign Exchange Market Intervention	76	The Exchange-Rate Mechanism	110
Mechanics of Intervention	78	Lessons from the European Monetary System	111
Sterilized versus Unsterilized Intervention	79	The Currency Crisis of September 1992	111
The Effects of Foreign Exchange Market Intervention	80	The Catalyst	111
2.4 The Equilibrium Approach to Exchange Rates	82	The High Cost of Intervention	112
Disequilibrium Theory and Exchange Rate Overshooting	82	The Exchange Rate Mechanism Is Abandoned in August 1993	112
The Equilibrium Theory of Exchange Rates and Its Implications	83	The Catalyst	112
2.5 Summary and Conclusions	85	Governments Surrender to the Market	113
3 THE INTERNATIONAL MONETARY SYSTEM	88	A Postmortem on the EMS	113
Learning Objectives	88	European Monetary Union	114
3.1 Alternative Exchange Rate Systems	89	Maastricht Convergence Criteria	114
The Trilemma and Exchange Rate Regime Choice	90	Launch of the Euro	114
Free Float	92	EMU and the European Welfare State	115
Managed Float	92	Consequences of EMU	117
Target-Zone Arrangement	95	Performance of the Euro	118
Fixed-Rate System	95	Optimum Currency Area	121
3.2 A Brief History of the International Monetary System	98	Cracks in the Eurozone—the Periphery States Fracture	124
The Classical Gold Standard	99	The Catalyst—Divergences in Prices	124
How the Classical Gold Standard Worked in Practice: 1821-1914	101	Euro Structural Flaws	127
The Gold Exchange Standard and Its Aftermath: 1925-1944	101	Disparate Growth Rates Heightened Tensions	127
		Lessons from EMU and the Euro	131
		Exchange Rate Regimes Today	131
		3.4 Emerging Market Currency Crises	132
		Transmission Mechanisms	132
		Trade Links	132
		Financial System	132
		Debt Policy	133
		Origins of Emerging Market Crises	133
		Moral Hazard	133
		Fundamental Policy Conflict	133

•			
	•		
		Policy Proposals for Dealing with Emerging Market Crises	133
		<i>Currency Controls</i>	134
		<i>Freely Floating Currency</i>	134'
		<i>Permanently Fixed-Exchange Rate</i>	134
		<i>Better Information</i>	134
3.5		Summary and Conclusions	135 »
4		PARITY CONDITIONS IN INTERNATIONAL FINANCE AND CURRENCY FORECASTING	138
		Learning Objectives	138
4.1		Arbitrage and the Law of One Price	138
4.2		Purchasing Power Parity	143
		The Lesson of Purchasing Power Parity	146
		Expected Inflation and Exchange Rate Changes	148
		The Monetary Approach	148
		Empirical Evidence	149
4.3		The Fisher Effect	152
		Empirical Evidence	154
		<i>Adding Up Capital Markets Internationally</i>	159
4.4		The International Fisher Effect	159
		Empirical Evidence	161
4.5		Interest Rate Parity Theory	163
		Empirical Evidence	167
4.6		The Relationship Between the Forward Rate and the Future Spot Rate	168
		Empirical Evidence	170
4.7		Currency Forecasting	171
		Requirements for Successful Currency Forecasting	171
		Market-Based Forecasts	172
		<i>Forward Rates</i>	172
		<i>Interest Rates</i>	172
		Model-Based Forecasts	172
		<i>Fundamental Analysis</i>	172
		<i>Technical Analysis</i>	174
		Model Evaluation	174
		Forecasting Controlled Exchange Rates	177
4.8		Summary and Conclusions	177
5		THE BALANCE OF PAYMENTS AND INTERNATIONAL ECONOMIC LINKAGES	183
		Learning Objectives	183
5.1		Balance-of-Payments Categories	184
		Current Account	185
		Capital Account	188
		Financial Account	188
		Balance-of-Payments Measures	188
		The Missing Numbers	190
5.2		The International Flow of Goods, Services, and Capital	190
		Domestic Saving and Investment and the Financial Account	190
		The Link between the Current and Financial Accounts	191
		Government Budget Deficits and Current-Account Deficits	194
		The Current Situation	196
5.3		Coping with the Current-Account Deficit	199
		Currency Depreciation	199
		• <i>Lagged Effects</i>	202
		<i>J-Curve Theory</i>	202
		<i>Devaluation and Inflation</i>	203
		<i>U.S. Deficits and the Demand for U.S. Assets</i>	203
		Protectionism	204
		Ending Foreign Ownership of Domestic Assets	205
		Boosting the Saving Rate	206
		External Policies	207
		Current-Account Deficits and Unemployment	208
		The Bottom Line on Current-Account Deficits and Surpluses	210
5.4		Summary and Conclusions	210
6		COUNTRY RISK ANALYSIS	214
		Learning Objectives	214
6.1		Measuring Political Risk	215
		Political Stability	216
		Economic Factors	217
		Subjective Factors	217
		<i>Political Risk and Uncertain Property Rights</i>	218
		<i>Capital Flight</i>	223
		<i>Culture</i>	225
6.2		Economic and Political Factors Underlying Country Risk	226
		Fiscal Irresponsibility	226
		Monetary Instability	229
		Controlled Exchange Rate System	230
		Wasteful Government Spending	230

Resource Base	231	The Mathematics of Sovereign Debt	
Country Risk and Adjustment to External Shocks	232	Analysis	245
Market-Oriented versus Statist Policies	232	Country Risk and the Terms of Trade	247
<i>Why Capitalism Works</i>	233	The Government's Cost/Benefit Calculus	248
<i>Statist Policies Constrain Growth</i>	235	Lessons from the International Debt Crisis	250
<i>Why Statist Policies Persist</i>	236	<i>Onset of the Crisis</i>	250
Key Indicators of Country Risk and Economic Health	237	<i>Reform Takes Hold</i>	250
<i>Market-Oriented Policies Work</i>	240	<i>Debt Relief</i>	250
<i>Market-Oriented Reform in Latin America</i>	241	<i>The Crisis Ends</i>	251
<i>Obstacles to Economic Reform</i>	242	<i>Lessons from Successful Economic Reform</i>	251
6.3 Country Risk Analysis in International Lending	244	6.4 Summary and Conclusions	251

PART II FOREIGN EXCHANGE AND DERIVATIVES MARKETS 255

7 THE FOREIGN EXCHANGE MARKET	256	Forward Contract versus Futures Contract	282
Learning Objectives	256	<i>Advantages and Disadvantages of Futures Contracts</i>	286
7.1 Organization of the Foreign Exchange Market	257	<i>Arbitrage between the Futures and Forward Markets</i>	286
The Participants	258	8.2 Currency Options	286
<i>The Clearing System</i>	260	Market Structure	287
<i>Electronic Trading</i>	261	Using Currency Options	289
Size	262	<i>Currency Spread</i>	293
7.2 The Spot Market	264	<i>Knockout Options</i>	294
Spot Quotations	264	Option Pricing and Valuation	295
<i>Transaction Costs</i>	266	Using Forward or Futures Contracts versus Options Contracts	296
<i>Cross Rates</i>	261	Futures Options	301
<i>Currency Arbitrage</i>	269	8.3 Reading Currency Futures and Options Prices	302
<i>Settlement Date</i>	271	8.4 Summary and Conclusions	305
<i>Exchange Risk</i>	271	9 SWAPS AND INTEREST RATE DERIVATIVES	312
The Mechanics of Spot Transactions	272	Learning Objectives	312
7.3 The Forward Market	272	9.1 Interest Rate and Currency Swaps	312
Forward Quotations	274	Interest Rate Swaps	313
<i>Exchange Risk</i>	276	<i>The Classic Swap Transaction</i>	313
<i>Cross Rates</i>	276	<i>Cost Savings Associated with Swaps</i>	315
Forward Contract Maturities	277	Currency Swaps	316
7.4 Summary and Conclusions	111	<i>Interest Rate/Currency Swaps</i>	318
8 CURRENCY FUTURES AND OPTIONS MARKETS	280		
Learning Objectives	280		
8.1 Futures Contracts	280		

	<i>Dual Currency Bond Swaps</i>	322	9.3	Structured Notes	328
	Economic Advantages of Swaps	324		Inverse Floaters	329
9.2	Interest Rate Forwards and Futures	324		Callable Step-Up Note	330
	Forward Forwards	324		Step-Down Coupon Note	330
	Forward Rate Agreement	325	9.4	Credit Default Swaps	330
	Eurodollar Futures	326	9.5	Summary and Conclusions	332

PART 111 FOREIGN EXCHANGE RISK MANAGEMENT

335

10 MEASURING AND MANAGING TRANSLATION AND TRANSACTION EXPOSURE 336

	Learning Objectives	336
10.1	Alternative Measures of Foreign Exchange Exposure ¹	337
	Translation Exposure	337
	Transaction Exposure	338
	Operating Exposure	338
10.2	Alternative Currency Translation Methods	338
	Current/Noncurrent Method	339
	Monetary/Nonmonetary Method	339
	Temporal Method	339
	Current Rate Method	340
10.3	Transaction Exposure	341
10.4	Designing a Hedging Strategy	342
	Objectives	343
	Costs and Benefits of Standard Hedging Techniques	346
	<i>Costs of Hedging</i>	346
	<i>Benefits of Hedging</i>	347
	<i>Exposure Netting</i>	349
	Centralization versus Decentralization	349
	Managing Risk Management	350
	Accounting for Hedging and FASB 133	351
	Empirical Evidence on Hedging	352
10.5	Managing Translation Exposure	352
	Funds Adjustment	352
	Evaluating Alternative Hedging Mechanisms	353
10.6	Managing Transaction Exposure	354
	Forward Market Hedge	355
	<i>The True Cost of Hedging</i>	356
	Money Market Hedge	357

	Risk Shifting	359
	Pricing Decisions	359
	Exposure Netting	360
	Currency Risk Sharing	361
	Currency Collars	362
	Cross-Hedging	366
	Foreign Currency Options	366
	<i>Using Options to Hedge Bids</i>	367
	<i>Using Options to Hedge Other Currency Risks</i>	368
	<i>Options versus Forward Contracts</i>	369
10.7	Summary and Conclusions	370
11	MEASURING AND MANAGING ECONOMIC EXPOSURE	379
	Learning Objectives	379
11.1	Foreign Exchange Risk and Economic Exposure	379
	Real Exchange Rate Changes and Exchange Risk	381
	Importance of the Real Exchange Rate	382
	Inflation and Exchange Risk	383
	Competitive Effects of Real Exchange Rate Changes	384
11.2	The Economic Consequences of Exchange Rate Changes	387
	Transaction Exposure	387
	Operating Exposure	387
11.3	Identifying Economic Exposure	391
	Aspen Skiing Company	391
	Petroleos Mexicanos	392
	Toyota Motor Company	393
11.4	Calculating Economic Exposure	393
	Spectrum's Accounting Exposure	395

Spectrum's Economic Exposure	395	<i>Market Selection</i>	401
<i>Scenario 1: All Variables Remain the Same</i>	395	<i>Pricing Strategy</i>	401
<i>Scenario 2: Krona Sales Prices and All Costs Rise; Volume Remains the Same</i>	396	<i>Product Strategy</i>	403
<i>Scenario 3: Partial Increases in Prices, Costs, and Volume</i>	397	Production Management of Exchange Risk	405
<i>Case Analysis</i>	398	<i>Input Mix</i>	405
11.5 An Operational Measure of Exchange Risk	398	<i>Shifting Production Among Plants</i>	406
Limitations	399	<i>Plant Location</i>	407
<i>Empirical Results</i>	400	<i>Raising Productivity</i>	407
11.6 Managing Operating Exposure	401	Planning for Exchange Rate Changes	408
Marketing Management of Exchange Risk	401	Financial Management of Exchange Risk	411
		11.7 Summary and Conclusions	416

PART IV FINANCING THE MULTINATIONAL CORPORATION 421

12 INTERNATIONAL FINANCING AND NATIONAL CAPITAL MARKETS	422	<i>Regional Development Banks</i>	449
Learning Objectives	422	<i>National Development Banks</i>	450
12.1 Corporate Sources and Uses of Funds	423	Private Sector Alternatives	450
Financial Markets versus Financial Intermediaries	423	12.4 Project Finance	452
Financial Systems and Corporate Governance	424	12.5 Summary and Conclusions	453
Globalization of Financial Markets	427	13 THE EUROMARKETS	455
<i>Financial Regulation and Deregulation</i>	427	Learning Objectives	455
<i>Financial Innovation</i>	429	13.1 The Eurocurrency Market	455
12.2 National Capital Markets as International Financial Centers	431	Modern Origins	456
International Financial Markets	434	Eurodollar Creation	456
Foreign Access to Domestic Markets	435	Eurocurrency Loans	458
<i>The Foreign Bond Market</i>	435	<i>Terms</i>	458
<i>The Foreign Bank Market</i>	436	<i>Multicurrency Clauses</i>	459
<i>The Foreign Equity Market</i>	436	Relationship Between Domestic and Eurocurrency Money Markets	460
Globalization of Financial Markets Has Its Downside	447	<i>Interest Differentials</i>	460
12.3 Development Banks	448	<i>Eurocurrency Spreads</i>	460
The World Bank Group	448	Euromarket Trends	461
<i>IBRD</i>	448	13.2 Eurobonds	462
<i>IFC</i>	448	Swaps	462
<i>IDA</i>	449	Links Between the Domestic and Eurobond Markets	462
Regional and National Development Banks	449	<i>Placement</i>	462
		<i>Currency Denomination</i>	463
		<i>Interest Rates on Fixed-Rate Eurobonds</i>	463
		<i>Interest Rates on Floating-Rate Eurobonds</i>	463

	\		
	<i>Eurobond Retirement</i>	464	
	<i>Ratings</i>	465	
	Rationale for Existence of Eurobond Market	465	
	Eurobonds versus Eurocurrency Loans	467	
13.3	Note Issuance Facilities and Euronotes	468	
	Note Issuance Facilities versus *		
	Eurobonds	470	
	Euro-Medium-Term Notes	470	
	<i>Reasons for Success</i>	470	
	<i>Costs of a Euro-MTN Program</i>	471	
	<i>Characteristics</i>	471	
	<i>Risks</i>	471	
13.4	Euro-Commercial Paper	472	
13.5	The Asiacurrency Market	473	
13.6	Summary and Conclusions	473	
14	THE COST OF CAPITAL FOR FOREIGN INVESTMENTS	476	
	Learning Objectives	476	
14.1	The Cost of Equity Capital	477	
14.2	The Weighted Average Cost of Capital for Foreign Projects	478	
14.3	Discount Rates for Foreign Investments	479	
	Evidence From the Stock Market	480	
	Key Issues in Estimating Foreign Project Discount Rates	481	
	Proxy Companies	482	
	<i>Local Companies</i>	482	
	<i>Proxy Industry</i>	483	
	<i>Adjusted U.S. Industry Beta</i>	483	
	The Relevant Base Portfolio	483	
	<i>The Impact of Globalization on the Cost of Capital</i>	484	
	<i>Empirical Evidence</i>	486	
	<i>A Recommendation</i>	486	
	The Relevant Market Risk Premium Recommendations	487	
14.4	The Cost of Debt Capital	488	
	Annual Exchange Rate Change	490	
	Using Sovereign Risk Spreads	490	
14.5	Establishing a Worldwide Capital Structure	490	
	Foreign Subsidiary Capital Structure	491	
	<i>Political Risk Management</i>	493	
	<i>Currency Risk Management</i>	494	
	<i>Leverage and Foreign Tax Credits</i>	494	
	<i>Leasing and Taxes</i>	495	
	<i>Cost-Minimizing Approach to Global Capital Structure</i>	495	
	Joint Ventures	496	
14.6	Valuing Low-Cost Financing Opportunities	496	
	Taxes	498	
	<i>Zero-Coupon Bonds</i>	498	
	<i>Debt versus Equity Financing</i>	499	
	Government Credit and Capital Controls	499	
	Government Subsidies and Incentives	499	
14.7	Summary and Conclusions	502	
PART V	FOREIGN INVESTMENT ANALYSIS		507
15	INTERNATIONAL PORTFOLIO INVESTMENT	508	
	Learning Objectives	508	
15.1	The Risks and Benefits of International Equity Investing	508	
	International Diversification	510	
	<i>Correlations and the Gains from Diversification</i>	511	
	<i>Recent Correlations</i>	515	
	Investing in Emerging Markets	518	
	Barriers to International Diversification	524	
	International Bond Investing	527	
15.3	Optimal International Asset Allocation	527	
15.4	Measuring the Total Return from Foreign Portfolio Investing	529	
	Bonds	529	
	Stocks	529	
15.5	Measuring Exchange Risk on Foreign Securities	530	
	Hedging Currency Risk	530	
15.6	Summary and Conclusions	531	

1 6	CORPORATE STRATEGY AND FOREIGN DIRECT INVESTMENT	535	
	Learning Objectives	535	
16.1	Theory of the Multinational Corporation	536	
	Product and Factor Market Imperfections	536	
	Financial Market Imperfections	537	
16.2	The Strategy of Multinational Enterprise	537	
	Innovation-Based Multinationals	538	
	The Mature Multinationals	538	
	The Senescent Multinationals	541	
	Foreign Direct Investment and Survival	543	
	Cost Reduction	543	
	Economies of Scale	543	
	Multiple Sourcing	544	
	Knowledge Seeking	544	
	Keeping Domestic Customers	546	
16.3	Designing a Global Expansion Strategy	547	
	1. Awareness of Profitable Investments	548	
	2. Selecting a Mode of Entry	548	
	3. Auditing the Effectiveness of Entry Modes	549	
	4. Using Appropriate Evaluation Criteria	550	
	5. Estimating the Longevity of a Competitive Advantage	550	^
16.4	Summary and Conclusions	551	
1 7	CAPITAL BUDGETING FOR THE MULTINATIONAL CORPORATION	SS4	
	Learning Objectives	554	
17.1	Basics of Capital Budgeting	555	
	Net Present Value	555	
	Incremental Cash Flows	556	
	Cannibalization	556	
	Sales Creation	556	
	Opportunity Cost	556	
	Transfer Pricing	557	
	Fees and Royalties	557	
	Getting the Base Case Right	557	
	Accounting for Intangible Benefits	558	
	Alternative Capital-Budgeting Frameworks	559	
	An Adjusted Present Value Approach	559	
17.2	Issues in Foreign Investment Analysis	560	
	Parent versus Project Cash Flows	561	
	A Three-Stage Approach	561	
	Estimating Incremental Project Cash Flows	561	
	Tax Factors	562	
	Political and Economic Risk Analysis	562	
	Adjusting the Discount Rate or Payback Period	562	
	Adjusting Expected Values	563	
	Exchange Rate Changes and Inflation	563	
17.3	Foreign Project Appraisal: The Case of International Diesel Corporation	564	
	Estimation of Project Cash Flows	565	
	Initial Investment Outlay	565	
	Financing IDC-U.K.	566	
	Interest Subsidies	566	
	Sales and Revenue Forecasts	566	
	Production Cost Estimates	567	
	Projected Net Income	568	
	Additions to Working Capital	568	
	Terminal Value	569	
	Estimated Project Present Value	569	
	Estimation of Parent Cash Flows	569	
	Loan Payments	569	
	Remittances to IDC-U.S.	570	
	Earnings on Exports to IDC-U.K.	570	
	Estimated Present Value of Project to IDC-U.S.	570	
	Lost Sales	571	
17.4	Political Risk Analysis	572	
	Expropriation	572	
	Blocked Funds	573	
17.5	Growth Options and Project Evaluation	574	
17.6	Summary and Conclusions	578	

PART VI MULTINATIONAL WORKING CAPITAL MANAGEMENT

585

1 8	FINANCING FOREIGN TRADE	586	
	Learning Objectives	586	
18.1	Payment Terms in International Trade	586	
	Cash in Advance	587	
	Letter of Credit	587	
	Online Alternatives	591	
	Draft	592	

<i>p</i>	\		
	Consignment	594	
	Open Account	594	
	Banks and Trade Financing	595	
	Collecting Overdue Accounts	595	
18.2	Documents in International Trade	597	
	Bill of Lading	597	
	Commercial Invoice	597	
	Insurance Certificate	598	
	Consular Invoice	598	
18.3	Financing Techniques in International Trade	598	
	Bankers' Acceptances	598	
	<i>Creating an Acceptance</i>	598	
	<i>Terms of Acceptance Financing</i>	599	
	<i>Evaluating the Cost of Acceptance Financing</i>	600	
	Discounting	600	
	Factoring	601	
	<i>Evaluating the Cost of Factoring</i>	601	
	Forfeiting	602	
18.4	Government Sources of Export Financing and Credit Insurance	602	
	Export Financing	602	
	<i>Export-Import Bank</i>	602	
	<i>Private Export Funding Corporation</i>	605	
	<i>Trends</i>	605	
	Export-Credit Insurance	606	
	<i>Foreign Credit Insurance Association</i>	606	
	Taking Advantage of Government-Subsidized Export Financing	607	
	<i>Export Financing Strategy</i>	607	
	<i>Import Financing Strategy</i>	607	
18.5	Countertrade	608	
18.6	Summary and Conclusions	610	
19	CURRENT ASSET MANAGEMENT AND SHORT-TERM FINANCING	613	
	Learning Objectives	613	
19.1	International Cash Management	614	
	Organization	614	
	Collection and Disbursement of Funds	615	
	Payments Netting in International Cash Management	617	
	<i>Bilateral and Multilateral Netting</i>	618	
	<i>Information Requirements</i>	619	
	<i>Foreign Exchange Controls</i>	620	
	<i>Analysis</i>	621	
	Management of the Short-Term Investment Portfolio	622	
	<i>Portfolio Guidelines</i>	622	
	Optimal Worldwide Cash Levels	623	
	<i>Evaluation and Control</i>	624	
	Cash Planning and Budgeting	624	
	<i>Multinational Cash Mobilization</i>	625	
	Bank Relations	627	
19.2	Accounts Receivable Management	628	
	Credit Extension	628	
19.3	Inventory Management	629	
	Production Location and Inventory Control	630	
	Advance Inventory Purchases	630	
	Inventory Stockpiling	631	
19.4	Short-Term Financing	631	
	Key Factors in Short-Term Financing Strategy	631	
	Short-Term Financing Objectives	632	
	Short-Term Financing Options	633	
	<i>Intercompany Financing</i>	633	
	<i>Local Currency Financing</i>	633	
	<i>Bank Loans</i>	633	
	<i>Commercial Paper</i>	636	
	Calculating the Dollar Costs of Alternative Financing Options	637	
	<i>Case 1: No Taxes</i>	637	
	<i>Case 2: Taxes</i>	638	
19.5	Summary and Conclusions	640	
20	MANAGING THE MULTINATIONAL FINANCIAL SYSTEM	643	
	Learning Objectives	643	
20.1	The Value of the Multinational Financial System	644	
	Mode of Transfer	644	
	Timing Flexibility	644	
	Value	646	
20.2	Intercompany Fund-Flow Mechanisms: Costs and Benefits	647	
	Tax Factors	647	
	Transfer Pricing	648	
	<i>Tax Effects</i>	648	
	<i>Tariffs</i>	649	
	<i>Exchange Controls</i>	652	
	<i>Joint Ventures</i>	652	
	<i>Disguising Profitability</i>	652	

<i>Evaluation and Control</i>	652	<i>Joint Ventures</i>	662
Reinvoicing Centers	652	Equity versus Debt	662
Fees and Royalties	653	20.3 Designing a Global Remittance Policy	665
Leading and Lagging	654	Prerequisites	666
<i>Shifting Liquidity</i>	655	Information Requirements	667
Advantages	656	Behavioral Consequences	667
<i>Government Restrictions</i>	656	20.4 Summary and Conclusions	668
Intercompany Loans	657		
<i>Back-to-Back Loans</i>	657	GLOSSARY	673
<i>Parallel Loans</i>	659		
Dividends	660	INDEX	693
<i>Tax Effects</i>	660		
<i>Financing Requirements</i>	662		
<i>Exchange Controls</i>	662		