# Multinational Business Finance

FOURTEENTH EDITION
GLOBAL EDITION

# David K. **EITEMAN**

University of California, Los Angeles

# Arthur I. STONEHILL

Oregon State University and University of Hawaii at Manoa

# Michael H. MOFFETT

Thunderbird School of Global Management at Arizona State University



Boston Columbus Indianapolis New York San Francisco

Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montreal Toronto

Delhi Mexico City Sao Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

### **Brief Contents**

PART 1	Global Financial Environment 21
	Chapter 1 Multinational Financial Management: Opportunities and Challenges 22
	Chapter 2 The International Monetary System 48
	Chapter 3 The Balance of Payments 77
	Chapter 4 Financial Goals and Corporate Governance 107
PART 2	Foreign Exchange Theory and Markets 137
	Chapter 5 The Foreign Exchange Market 138
	Chapter 6 International Parity Conditions 167
	Chapter 7 Foreign Currency Derivatives: Futures and Options 201
	Chapter 8 Interest Rate Risk and Swaps 229
	Chapter 9 Foreign Exchange Rate Determination 261
PART 3	Foreign Exchange Exposure 293
	Chapter 10 Transaction Exposure 294
	Chapter 11 Translation Exposure 333
	Chapter 12 Operating Exposure 351
PART 4	Financing the Global Firm 377
	Chapter 13 The Global Cost and Availability of Capital 378
	Chapter 14 Raising Equity and Debt Globally 404
	Chapter 15 Multinational Tax Management 441
	Chapter 16 International Trade Finance 470
PART 5	Foreign Investments and Investment Analysis 497
	Chapter 17 Foreign Direct Investment and Political Risk 498
	Chapter 18 Multinational Capital Budgeting and Cross-Border Acquisitions 530
Answers to	Selected End-of-Chapter Problems 565
Glossary	569
Index 585	

### **Contents**

PART 1	Global Financial Environment	-21

#### Chapter 1 Multinational Financial Management: **Opportunities and Challenges**

Financial Globalization and Risk 23 The Global Financial Marketplace 24

The Theory of Comparative Advantage 31

What Is Different about International Financial Management? 33

Market Imperfections: A Rationale for the Existence of the Multinational Firm 34

The Globalization Process 35

Summary Points 39

MINI-CASE: Crowdfunding Kenya 39

Questions ■ Problems ■ Internet Exercises 42

#### Chapter 2 The International Monetary System 48

History of the International Monetary System 49

IMF Classification of Currency Regimes 53 Fixed versus Flexible Exchange Rates 57

A Single Currency for Europe: The Euro 59

Emerging Markets and Regime Choices 62

Globalizing the Chinese Renminbi 64

Summary Points 68

MINI-CASE: Iceland—A Small Country in a Global Crisis 69

Questions ■ Problems ■ Internet Exercises 74

#### Chapter 3 The Balance of Payments 77

Fundamentals of BOP Accounting 78

The Accounts of the Balance of Payments 80

BOP Impacts on Key Macroeconomic Rates 88

Trade Balances and Exchange Rates 90

Capital Mobility 92 Summary Points 97

MINI-CASE: Global Remittances 98

Questions ■ Problems ■ Internet Exercises 102

#### Chapter 4 Financial Goals and Corporate Governance 107

Who Owns the Business? 107

The Goal of Management 110

Publicly Traded versus Privately Held: The Global Shift 116

Corporate Governance 119

Summary Points 127

MINI-CASE: Luxury Wars—LVMH vs. Hermès 128 Questions ■ Problems ■ Internet Exercises 132

#### PART 2 Foreign Exchange Theory and Markets 137

#### Chapter 5 The Foreign Exchange Market 138

Functions of the Foreign Exchange Market 139 Structure of the Foreign Exchange Market 139 Transactions in the Foreign Exchange Market 143 Size of the Foreign Exchange Market 146 Foreign Exchange Rates and Quotations 149

Summary Points 158

MINI-CASE: The Venezuelan Bolivar Black Market 159
Questions ■ Problems ■ Internet Exercises 162

#### Chapter 6 International Parity Conditions 167

Prices and Exchange Rates 168
Interest Rates and Exchange Rates 175
Forward Rate as an Unbiased Predictor of the Future Spot Rate 184
Prices, Interest Rates, and Exchange Rates in Equilibrium 185
Summary Points 187

MINI-CASE: Mrs. Watanabe and the Japanese Yen Carry Trade 187
Questions ■ Problems ■ Internet Exercises 190
Appendix: An Algebraic Primer to International Parity Conditions 197

#### Chapter 7 Foreign Currency Derivatives: Futures and Options 201

Foreign Currency Futures 202
Currency Options 204
Option Pricing and Valuation 212
Advanced Topic: Currency Option Pricing Sensitivity 213
Summary Points 220
MINI-CASE: KiKos and the South Korean Won 220

Questions ■ Problems ■ Internet Exercises 223
Appendix: Currency Option Pricing Theory 227

#### Chapter 8 Interest Rate Risk and Swaps 229

Interest Rate Foundations 230
Interest Rate Risk 237
Interest Rate Futures and FRAs 240
Interest Rate Swaps 242
Cross-Currency Swaps 246
Summary Points 250
MINI-CASE: Argenting and the Vulture

MINI-CASE: Argentina and the Vulture Funds 251 Questions ■ Problems ■ Internet Exercises 256

Questions ■ Problems ■ Internet Exercises 286

#### Chapter 9 Foreign Exchange Rate Determination 261

Exchange Rate Determination: The Theoretical Thread 262
Currency Market Intervention 267
Disequilibrium: Exchange Rates in Emerging Markets 273
Forecasting in Practice 278
Summary Points 283
MINI-CASE: Russian Ruble Roulette 283

Contents 17

#### PART 3 Foreign Exchange Exposure 293

#### Chapter 10 Transaction Exposure 294

Types of Foreign Exchange Exposure 294 Why Hedge? 295

Ganado's Transaction Exposure 300 Risk Management in Practice 309 Advanced Topics in Hedging 310

Summary Points 292

MINI-CASE: China Noah Corporation 312
Questions ■ Problems ■ Internet Exercises 318

Appendix: Complex Option Hedges 325

#### Chapter 11 Translation Exposure 333

Overview of Translation 334 Translation Methods 335

Ganado Corporation's Translation Exposure 338

Managing Translation Exposure 342

Summary Points 345

MINI-CASE: McDonald's, Hoover Hedges, and Cross-Currency Swaps 345

Questions ■ Problems ■ Internet Exercises 347

#### Chapter 12 Operating Exposure 351

A Multinational's Operating Exposure 351

Measuring Operating Exposure: Ganado Germany 356 Strategic Management of Operating Exposure 361

Proactive Management of Operating Exposure 364

Summary Points 370

MINI-CASE: Toyota's European Operating Exposure 370

Questions ■ Problems ■ Internet Exercises 373

#### **PART 4** Financing the Global Firm 377

#### Chapter 13 The Global Cost and Availability of Capital 378

Financial Globalization and Strategy 378

International Portfolio Theory and Diversification 381

The Demand for Foreign Securities: The Role of International Portfolio Investors 387

The Cost of Capital for MNEs Compared to Domestic Firms 392

Summary Points 395

MINI-CASE: Novo Industri A/S (Novo) 396

Questions ■ Problems ■ Internet Exercises 399

#### Chapter 14 Raising Equity and Debt Globally 404

Designing a Strategy to Source Capital Globally 405

Optimal Financial Structure 406

Optimal Financial Structure and the Multinational 407

Raising Equity Globally 409

Depositary Receipts 413

Private Placement 419

Foreign Equity Listing and Issuance 420

Raising Debt Globally 423

Summary Points 428

MINI-CASE: Petrobrás of Brazil and the Cost of Capital 429

Questions ■ Problems ■ Internet Exercises 432

Appendix: Financial Structure of Foreign Subsidiaries 437

#### Chapter 15 Multinational Tax Management 441

Tax Principles 442

Multinational Tax Management 449

Tax Havens and International Offshore Financial Centers 455

Google: An Illustrative Case of Profit Repositioning 457

Corporate Inversion 459

Summary Points 460

MINI-CASE: Apple's Global iTax Strategy 461

Questions ■ Problems ■ Internet Exercises 465

#### Chapter 16 International Trade Finance 470

The Trade Relationship 470

Benefits of the System 473

Key Documents 475

Government Programs to Help Finance Exports 482

Trade Financing Alternatives 483

Forfaiting: Medium- and Long-Term Financing 486

Summary Points 488

MINI-CASE: Crosswell International and Brazil 489

Questions ■ Problems ■ Internet Exercises 492

#### PART 5 Foreign Investments and Investment Analysis 497

#### Chapter 17 Foreign Direct Investment and Political Risk 498

Sustaining and Transferring Competitive Advantage 499

The OLI Paradigm and Internationalization 501

Deciding Where to Invest 503

Modes of Foreign Investment 504

Illustrative Case: Corporate Competition from the Emerging Markets 508

Predicting Political Risk 510

Country-Specific Risk: Transfer Risk 516

Country-Specific Risk: Cultural and Institutional Risk 519

Global-Specific Risk 522 Summary Points 525

MINI-CASE: Strategic Portfolio Theory, Black Swans, and [Avoiding] Being the Turkey 526

Questions ■ Internet Exercises 528

Contents 19

### Chapter 18 Multinational Capital Budgeting and Cross-Border Acquisitions 530

Complexities of Budgeting for a Foreign Project 531 Illustrative Case: Cemex Enters Indonesia 534 Real Option Analysis 547 Project Financing 548 Cross-Border Mergers and Acquisitions 549 Summary Points 555

MINI-CASE: Elan and Royalty Pharma 555
Questions ■ Problems ■ Internet Exercises 559

Answers to Selected End-of-Chapter Problems 565 Glossary 569 Index 585