

## International Financial Management

This new and fully updated edition of *International Financial Management* blends theory, data analysis, examples, and practical case situations to equip students and business leaders with the analytical tools they need to make informed international financial decisions and manage the risks that businesses may face in today's competitive global environment.

Combining theory and practice, the authors offer the reader a multitude of real-world examples and case studies, emphasizing fundamental concepts, principles, and analytical theories to enable students to understand not only what to do when confronted with an international financial decision, but why that choice is the correct one.

Suitable for MBA and advanced undergraduate business students taking a course in international financial management or international finance.

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## PREFACE

When we were graduate students, we chose to study international finance because we wanted to understand issues such as how exchange rates are determined, how people manage the risks that fluctuations in exchange rates create, and how people decide on the value of an international investment, be it a bond, an equity, a factory, or a company. We also recognized that the economic forces that people now call *globalization* were trends that would only increase in importance over time. We like to think that we made a good call on our careers because, without a doubt, globalization of business is now a fact. While the anti-globalization forces of economic nationalism and outright protectionism do periodically interrupt the advances of globalization and are currently on the rise, the gains to trade and the ongoing decreases in the costs of transportation and communication assure us that globalization is here to stay. Our goal with this book is to equip future global business leaders with the tools they need to understand the issues, to make sound international financial decisions, and to manage the myriad risks that their businesses face in a competitive global environment.

Over the years, the markets for goods and services as well as capital and labor have become increasingly open to the forces of international competition. All business schools have consequently “internationalized” their curriculums. Nevertheless, our combined 66 years of teaching experience indicates that most students will not be ready for the real world, with its global complications, unless they know the material in this book. They will not really understand how fluctuations in exchange rates create risks and rewards for multinational corporations and investment banks, and they will not understand how those risks can be managed. They will not really understand how to determine the value of an overseas project or the nature of country risk. The purpose of this book is to prepare students to deal with these and other real-world issues.

### **This Book’s Approach: Making Better Decisions by Blending Theory and Practice with Real-World Data Analysis**

*International Financial Management*, 3rd Edition, continues to blend theory, examples, the analysis of data, and practical case situations to allow students to truly understand not only what to do when confronted with an international financial decision but why that decision is the correct one. When we explore international financial markets, we do so with an eye on risk management. We thereby incorporate practical considerations into what other textbooks take as background theory or institutional detail. Multinational companies face a daunting array of risks, but they also have a wide variety of financial instruments available to manage them.

In this book, we detail the sources of risks that arise in international financial markets and how these risks can be managed. For example, a basic risk of international trade involves the fact that goods are being shipped out of the country. How does an exporter make sure that he is paid? We do not stop at identifying the risks and showing how to manage them; we also reflect on why a firm should manage them and how that management affects the firm's value. We do this by developing the valuation methodologies needed to determine the value of any foreign project—from the establishment of a foreign subsidiary to the takeover of a foreign company. Because we have a well-defined valuation methodology, we present international financial management using a modern, theoretically correct approach, building on the newest insights from international corporate finance. How international risk management affects the value of a firm falls out naturally from our framework. We also provide considerable detail about the institutional aspects of international financial markets for debt and equity. For example, we show how firms can obtain international equity financing, but we also discuss theories and empirical work on the costs and benefits of these decisions.

### Pedagogy for Students

This book necessarily combines theory and business practice. We provide plenty of real-world examples and case studies, and at the same time, we stress fundamental concepts, principles, and analytical theories that are bound to be more resilient to the constantly changing challenges of operating in a competitive global marketplace. To help students develop an in-depth and enduring knowledge of international financial management, *International Financial Management*, 3rd Edition, incorporates the following features:

**Real data analysis:** We incorporate the analysis of data in each relevant chapter to allow students to learn how well or poorly the current theories are supported by the data. All Exhibits in the 3rd Edition use the most recent data possible.

**Extended cases:** Where relevant, we introduce and solve intricate cases that illustrate the application of theory. These case solutions can serve as templates for future real-world analyses.

**Point-Counterpoint features:** We reinforce the subtleties of many international financial management issues by presenting a *Point-Counterpoint* feature for each chapter. Many textbooks provide short, easy answers to difficult questions. That approach is fine when there is general agreement about an issue, but many situations are more subtle and intricate than standard books may lead the reader to believe. The *Point-Counterpoint* features are designed to raise issues that are contentious and that are often not fully resolved or well understood by the academic and practitioner communities. Each *Point-Counterpoint* feature ends by summarizing the state-of-the-art thinking on the issue.

**Boxes:** We provide boxes to serve two purposes. First, they may contain concrete historical or current illustrations of important concepts introduced during the chapter. Second, they explore and illustrate basic finance concepts that are used in the chapter.

## Preface

**Appendixes:** We have included some mathematical and statistical material in appendixes to various chapters in an effort to make the book self-contained. We intend the book to be accessible to students with limited financial backgrounds.

**End-of-chapter questions and problems:** At the end of each chapter, we have provided a set of interesting questions and problems that are designed to help students ensure that they have mastered the chapter material.

**Bibliographies:** Each chapter contains a bibliography of further reading that contains not only citations to the books and articles mentioned in the text but also some additional readings that interested students can explore.

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