



MULTINATIONAL BUSINESS FINANCE

EITEMAN / STONEHILL

5TH EDITION

FIFTH EDITION

MULTINATIONAL BUSINESS FINANCE

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FIFTH EDITION

**MULTINATIONAL
BUSINESS FINANCE**

Preface

As the field of international finance has evolved, so has the content of *Multinational Business Finance*. In this fifth edition we identify three major trends and themes that continue to differentiate international financial management from its domestic counterpart.

As in previous editions, we perceive the multinational firm to be a unique institution that acts as a catalyst and facilitator of international trade and as an important producer and distributor in host countries where its affiliates are located. The success of a multinational firm continues to be dependent on its ability to recognize and benefit from imperfections in national markets for products, factors of production, and financial assets.

Also carried over from earlier editions is the theme that volatile exchange rates may increase risk, but they also create great opportunities for both investors and firms to profit, given a proper understanding of exchange risk management.

NEW TO THE FIFTH EDITION

This fifth edition recognizes the increasing importance of global integration of money and capital markets, a trend that is creating expanded opportunities for both investors and organizations that need to raise capital. Although global integration of financial markets removes some market imperfections, which impede the flow of capital internationally, excellent opportunities continue to exist for investors to increase their returns while lowering their risks through international portfolio diversification and for firms to lower their cost of capital by sourcing it internationally.

The fifth edition of *Multinational Business Finance* has been revised to reflect changes in the field of international finance occurring since the end of 1985. In particular, we have added separate chapters on futures and options (Chapter 5) and international portfolio diversification (Chapter 12, written by Cheol Eun). A new introductory chapter focuses on trends and themes rather than goal conflict, while this latter topic is now treated as part of political risk in a thoroughly revised Chapter 17.

Foreign exchange risk management is now explained in three separate chapters. Instead of treating measurement of all types of foreign exchange risk in one

chapter and management in a separate chapter, both measurement and management are combined within chapters focusing on economic (Chapter 7), transaction (Chapter 8), and translation (Chapter 9) foreign exchange risk. All other chapters have been updated with the most recent data and any new theoretical contributions found in academic and business literature.

This fifth edition of *Multinational Business Finance* is appropriate for the same audiences as the first four editions. Earlier editions have been widely used in international financial management courses in university degree programs, university-run executive programs, and company management development programs in the United States and abroad.

Readers will find *Multinational Business Finance* most meaningful if they have the background knowledge or experience equivalent to a basic finance course. A previous course in international economics is desirable, but the text is designed to cover sufficient economic material so that a separate background is not essential.

ACKNOWLEDGMENTS

The authors are grateful to the numerous persons who have provided critical comments and suggestions to improve both the current and earlier editions of this book. Special appreciation is due to the two primary reviewers of the entire fifth edition, Cheol Eun (University of Maryland) and Michael Moffett (Oregon State University). Cheol Eun also wrote the appendix for Chapter 5 and all of Chapter 12. Michael Moffett also contributed a number of graphs and improved our pedagogical presentation of the macroeconomic sections of the book.

Valuable help was also received from the following academic reviewers of particular sections of this edition: Hossein G. Askari (George Washington University), Robert T. Aubey (University of Wisconsin, Madison), Morten Balling (Handelshøjskolen i Aarhus, Denmark), Finbarr Bradley (New York University), Alan N. Cook (Baylor University), Frederick D. S. Choi (New York University), Manolete Gonzales (Oregon State University), David Griffiths (Western Washington University), Laurent Jacque (University of Minnesota), Ronald A. Johnson (Northeastern University), Gordon Klein (University of California, Los Angeles), Steve Kobrin (Wharton School, University of Pennsylvania), Eric Y. Lee (Fairleigh Dickinson University), Edmund Outslay (Michigan State University), Russell Taussig (University of Hawaii), I. Barry Thompson (Continental Bank), Joseph D. Vu (University of Illinois, Chicago), and Alexander Zampieron (Bentley College). We thank them for their advice.

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The final product is also the end result of the many valuable reviews and suggestions received on earlier editions, all of which have guided us as our thoughts evolved over the years. Particularly helpful have been comments from David Babbel (University of Florida), James Baker (Kent State University), Michael Brooke (University of Manchester, England), Robert Carlson (University of Hawaii), Payson Cha (The Cha Group, Hong Kong), Robert Chia (National University of Singapore), Robert Cornu (Cranfield School of Management, England), Steven Dawson (University of Hawaii), Gunter Dufey (University of Michigan), Kåre Dillum (Gudme Raaschou Investment Bank, Denmark), Vihang Errunza (McGill University), William R. Folks, Jr. (University of South Carolina), Lewis Freitas (University of Hawaii), Ian Giddy (Drexel Burnham Lambert), David Heenan (Theo Davies), Alfred Hofflander (University of California, Los Angeles), Kenneth Knox (Tektronix, Inc.), Donald Lessard (Massachusetts Institute of Technology), Rita Maldonado-Baer (New York University), Lee Remmers (INSEAD, France), Alan Rugman (University of Toronto), R. J. Rummel (University of Hawaii), Lemma Senbet (University of Wisconsin), Alan Shapiro (University of Southern California), Hany Shawky (State University of New York, Albany), Norman Toy (Columbia University), Harald Vestergaard (Copenhagen Business School), Willem Winter (First Interstate Bank of Oregon), and Richard Wright (Willamette University).

Inevitably woven into the fabric of this book are ideas received from faculty, colleagues, and students at institutions where we have taught, both our home universities of University of California, Los Angeles and Oregon State University and our visiting stints at the University of California, Berkeley; Cranfield School of Management, England; University of Hawaii, Manoa; Northern European Management Institute, Norway; Copenhagen School of Business, Denmark; Institute for the Development of Executives, Argentina; National University of Singapore; and Dalian University of Science & Technology, People's Republic of China. Further ideas came from consulting assignments in Argentina, Belgium, Canada, Denmark, Hong Kong, Indonesia, Japan, Malaysia, Mexico, the Netherlands, Norway, People's Republic of China, Taiwan, the United Kingdom, and Venezuela.

Finally, we would like to rededicate this book to our parents, the late Wilford Eiteman, Sylvia Eiteman, the late Harold Stonehill, and Norma Stonehill, who gave us the motivation to become academicians and authors. We thank our wives, Keng-Fong and Kari, for their patience through the years spent preparing this edition. Eva Hofenbredl and Emily Arulpragasam deserve special thanks for their excellent help in producing the final manuscript.

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