

FUNDAMENTALS OF
Multinational Finance



MOFFETT STONEHILL EITEMAN

FUNDAMENTALS OF **Multinational Finance**

MICHAEL H. MOFFETT

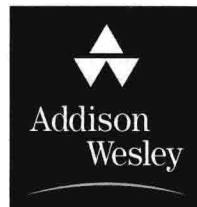
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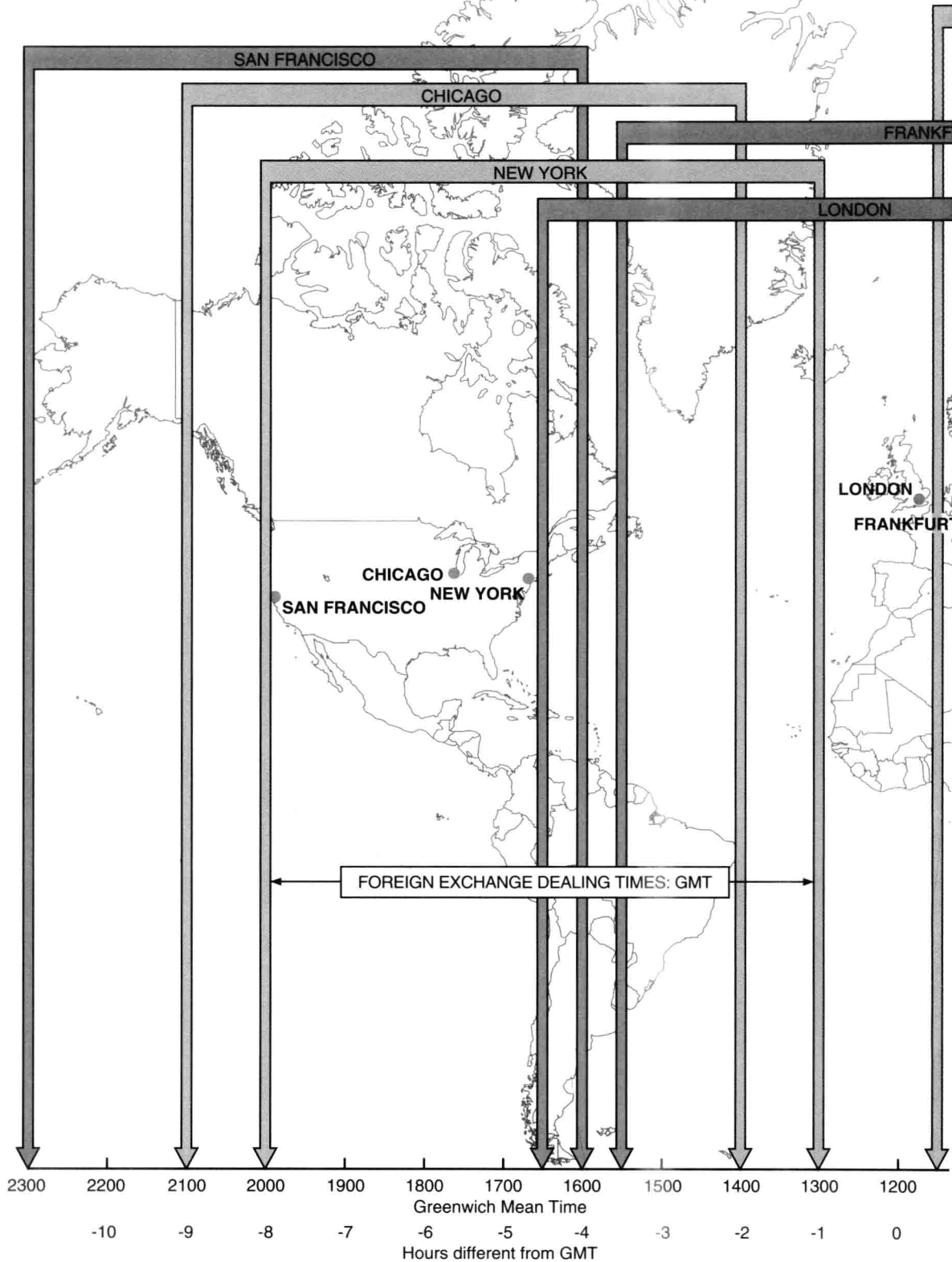
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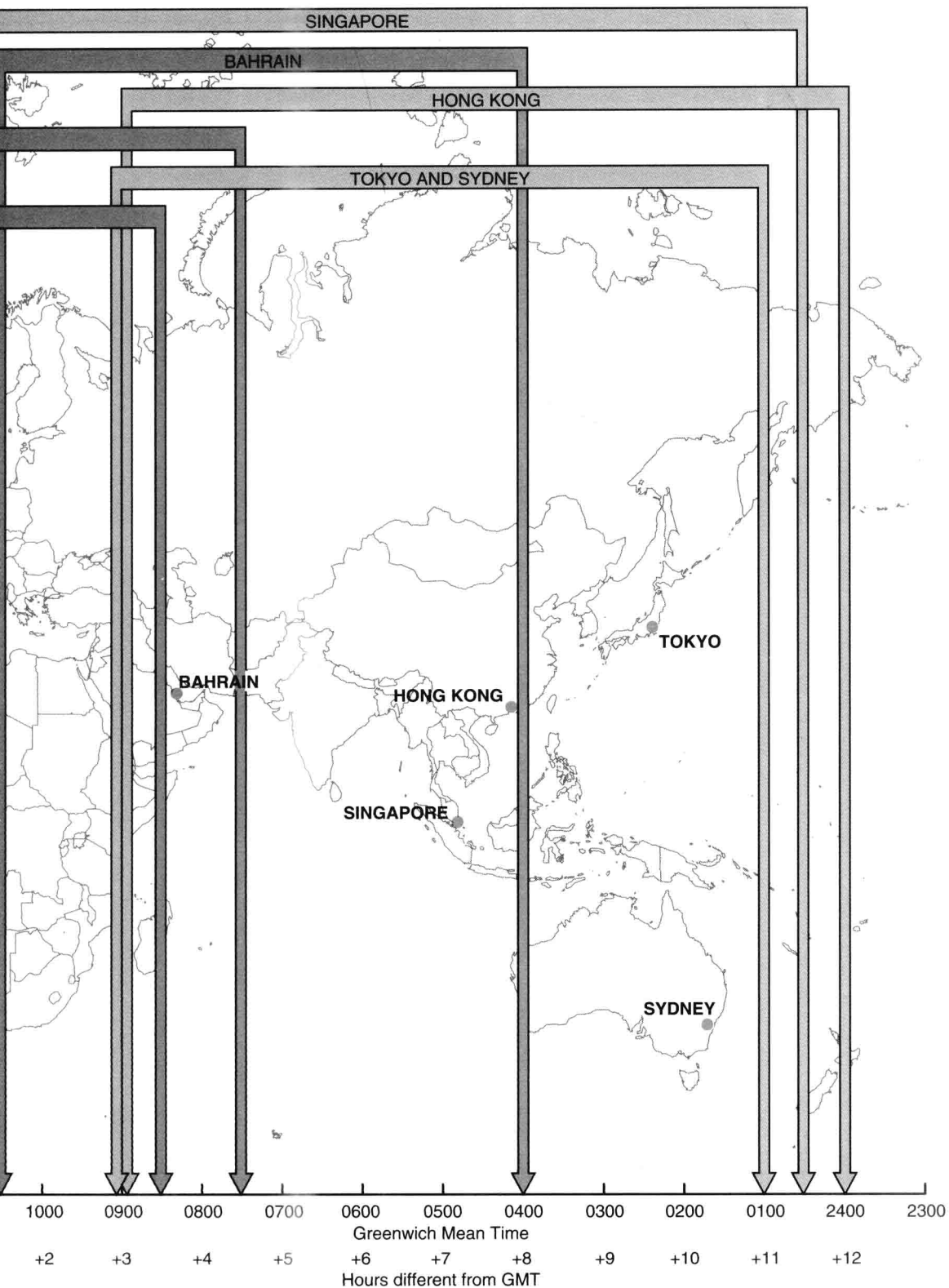
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THE WORLD OF FOREIGN EXCHANGE DEALING





FUNDAMENTALS OF
Multinational Finance

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Preface

Fundamentals of Multinational Finance views the multinational enterprise (MNE) as an organization that poses unique demands on the *business leaders* of tomorrow. Those leaders—possibly some of the readers of this text—will be confronted with a multitude of challenges that will test not only their ability to *comprehend* global markets, but more importantly, to *lead* their organizations through the constantly shifting currents and tides of global change. Competent leadership may indeed be the scarcest global commodity.

This book is about multinational management, and more specifically, the financial management dimensions of leading a multinational enterprise. The MNE itself acts as a *catalyst* and a *facilitator* of international trade, and as an important producer and distributor in the host countries where it operates. The MNE's potential success, however, rests in the hands of the truly competent *global leader*. The success of any MNE is dependent on its leadership's ability to lead and manage the global organization.

Our vision in writing this book is to aid in the development of tomorrow's MNE leaders. It is their ability to recognize and benefit from business opportunities such as imperfections in national markets, unequal costs and efficiencies of factors of production, intellectual property, and the accessing of sources of global funding to reduce risk and facilitate growth that will add value to their enterprises.

The financial managers of MNEs face numerous foreign exchange and political risks. These risks can be daunting, but they also present opportunities for creating value if properly understood. These opportunities and risks are most effectively understood in the context of the global business itself, and the ability of management to integrate the strategic and financial challenges that business faces.

Audience

Fundamentals of Multinational Finance is aimed at university-level courses in international financial management, international business finance, international finance, and similar titles. It can be used at either the undergraduate or graduate level as well as in executive education courses.

A prerequisite course or experience in corporate finance or financial management would be ideal. However, we review the basic finance concepts before we extend them to the multinational case. We also review the basic concepts of international economics and international business.

We recognize the fact that a significant portion of our audience lives outside of the United States and Canada. Therefore, we utilize a significant number of non-U.S. examples, mini-cases, and Global Finance Perspectives (anecdotes and illustrations).

Organization

Fundamentals of Multinational Finance is organized into six parts. The six parts are unified by the common thread of the globalization process by which a firm moves from

being domestic in its business orientation to multinational. Part 1 introduces the reader to the global financial environment. Part 2 explains foreign exchange theory and markets. Part 3 analyzes foreign exchange exposure, both measurement and management. Part 4 covers the financing of the global firm. Part 5 analyzes foreign investment decisions. Part 6 examines the management of multinational operations.

Pedagogical Tools

In order to make *Fundamentals of Multinational Finance* as student-friendly as possible, we utilize a large number of proven pedagogical tools. We have been greatly aided in this process by the detailed reviews and suggestions of a panel of professors who have earned recognition individually for teaching excellence in the field of international finance, particularly at the undergraduate level. Among the pedagogical tools are:

- A student-friendly writing style combines with a structured presentation of material, beginning with *learning objectives* for each chapter and ending with a summary of how those learning objectives have been realized.
- A generous use of *illustrations* and *exhibits* provides a visual parallel to the concepts and content presented. The entire book utilizes a multicolor presentation, which we believe provides a visual attractiveness that contributes significantly to reader attention and retention.
- A running case on a hypothetical U.S.-based firm, *Trident Corporation*, provides a cohesive framework for the multifaceted globalization process and is reinforced in several end-of-chapter problems.
- A selective use of *spreadsheet analyses*, prepared by our colleague Francis Clauss, illustrates the quantitative dimensions of the analysis. These spreadsheet analyses provide not only the computational support to improve reader understanding, but also the detailed formula behind their construction.
- The use of a *mini-case* at the end of each chapter, 23 in all, illustrates the chapter content and extends it to the multinational financial business environment.
- The use of *Global Finance Perspectives* in every chapter illuminates the theory with accounts of actual business practices. These applications extend the concepts without adding to the length of the text itself.
- The power and resources of the *Internet* are leveraged throughout the text in a variety of applications. Every chapter has a number of end-of-chapter exercises requiring the use of the Internet, while a generous supply of Internet references are dispersed throughout the chapters in text and exhibits.

A Rich Array of Support Materials

A robust package of materials for both instructor and student accompanies the text to facilitate learning and to support teaching and testing.

Instructor's Manual/Test Bank. The Instructor's Manual, prepared by Michael Moffett, contains complete answers to all end-of-chapter questions, problems, and chapter mini-cases, and includes selected spreadsheet solution images (spreadsheet solutions to all end-of-chapter problems are accessible on the instructor's portion of

the book's Web site). The Test Bank, prepared by Curtis Bacon of Southern Oregon University, contains over 1,200 multiple-choice and short-essay questions. The multiple-choice questions are labeled by topic and by category—recognition, conceptual, and analytical types.

Computerized Test Bank. The Test Bank is also available in Test Generator Software (Test-Gen-Eq with QuizMaster-EQ). Fully networkable, it is available for Windows and Macintosh. Test-Gen-EQ's graphical interface enables instructors to view, edit, and add questions; transfer questions to tests; and print different forms of tests. Search-and-sort features enable the instructor to locate questions quickly and arrange them in a preferred order. QuizMaster-EQ, working with your school's computer network, automatically grades the exams, stores the results on a disk, and allows the instructor to view and print a variety of reports.

PowerPoint Presentation Slides. Prepared by Shafiq Jadallah, the extensive set of PowerPoint slides provides lecture outlines and selected graphics from the text for each chapter.

Study Guide. Written by Timo Korkeamaki of Gonzaga University, the Study Guide enhances understanding and retention of concepts by providing detailed study outlines and helps students prepare for tests through a series of self-test questions, including true/false, multiple-choice, and short essay—all with answers.

Instructor's Resource Disk. This CD-ROM contains the Computerized Test Bank files, the Instructor's Manual files, and PowerPoint files.

Web Site. A dedicated Web site at www.aw.com/moffett contains the Web exercises from the book with wired links, electronic flashcards of glossary terms, and selected solutions and spreadsheets for end-of-chapter problems on the student's side, with Instructor's Manual, Test Bank, PowerPoint slides, and spreadsheet solutions for all end-of-chapter problems on the instructor's side.

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Studies, California Management Review, Journal of Financial and Quantitative Analysis, Journal of International Financial Management and Accounting, International Business Review, European Management Journal, The Investment Analyst (U.K.), Nationaløkonomisk Tidsskrift (Denmark), Sosialøkonomen (Norway), Journal of Financial Education, and others.

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