

# GLOBAL CORPORATE FINANCE

*Text and Cases*

F O U R T H , E D I T I O N

SUK H. KIM

AND

SEUNG H. KIM

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# **Global Corporate Finance**

*Text and Cases*

Fourth Edition

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# PREFACE

## ■ | **Intended Market** \_\_\_\_\_

The fourth edition of *Global Corporate Finance* appropriately appeals to the same audiences as the first three editions. This book is suitable for both undergraduate and graduate level courses in international finance. It is designed to be used in an international finance course in a Business School or in an Economics Department. Moreover, one outstanding feature of this book is that it can also be used as the primary text in international investments, international financial markets, or international banking. More than 100 colleges, universities, and management development programs around the world have adopted *Global Corporate Finance* through the last few editions because it stresses practical applications in a user-friendly format.

## ■ | **How Will Students Benefit by Using *Global Corporate Finance*?** \_\_\_\_\_

The objective of this book is to introduce students to those principles essential to an understanding of global financial problems and the policies multinational companies use to contend with these problems. To achieve this objective, the book stresses five essential elements of any good principles textbook: practicability, a user-friendly format, readability, brevity, and a highly competitive set of supplements. In other words, students will benefit if instructors adopt *Global Corporate Finance* because this book contains these five attributes.

## Why is *Global Corporate Finance* a Practical Text? —

This book focuses primarily on global corporate finance practice. Throughout, numerous real-world examples present actual applications of financial theories and techniques. These discussions center on how decision-makers work within a global business with specific areas of responsibility for financial administration.

This book is obviously practical because it contains practical cases, specific examples, real-world data, and applied end-of-chapter questions. Although there are different ways to master a subject, we believe that the case-study approach is the most effective one. This book is not a case book, but it centers on a series of real-life, current, and decision-oriented cases. Each of the first 19 chapters discusses an actual case scenario from the real world. In other words, all these nineteen cases are undisguised real cases. Additional comprehensive cases are provided at the end of the book. Moreover, Internet exercises at the end of each case have been added to explain how the Internet can be used to access international financial data and obtain information on the case concepts.

True, many textbooks, including the third edition of this book, describe practical examples and research findings in separate boxes. Students may have some fun reading these practical examples. However, it may be difficult or, at best, time consuming for students to figure out the linkage between theory and practice when the two are discussed in separate locations. Aware of this potential problem, we discuss practical examples and actual data as an integral part of the book without the use of separate boxes so that students may naturally bridge the gap between theory and practice.

Actual exchange rates for 210 currencies are found on page ii at the front of the book. Moreover, we placed a number of other practical data at the end of the book: the list of 140 currencies and their traditional symbols, and the list of worldwide web sites for important organizations cited in this book.

Instructors who want students to possess practical, job-oriented skills in global finance will find that *Global Corporate Finance* speaks to their needs. Corporate recruiters often criticize business schools for turning out graduates who cannot contribute immediately. At the core of this criticism is the belief that students are educated in various theories, but little emphasis is placed on developing skills. That criticism will never apply to the adopters of this book, whose chief purpose is the development of requisite skills in international finance.

## ■ | **Why is *Global Corporate Finance* a User-Friendly Text?**

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This book builds on knowledge derived from basic courses in economics and corporate finance. All traditional areas of corporate finance are explored from the viewpoint of global financial managers.

We use tables, figures, and numerical examples throughout the text to clarify discussions of financial concepts and techniques. In addition, a generous number of end-of-chapter questions and problems support text discussions by re-emphasizing definitions, concepts, and the application of theory. Nineteen chapters have numerical examples within the text and end-of-chapter problems. Solutions to selected end-of-chapter problems are found at the end of the text. Students may refer to these answers to check computation results for accuracy. All end-of-chapter problems are tied or keyed to the numerical examples presented in each chapter. Both end-of-chapter questions and problems are designed to help students understand important concepts and topics in global finance.

We have highlighted key terms and concepts in bold type. Students may test their comprehension and retention by using the list of key terms and concepts provided at the end of each chapter. Another friendly feature of the book is a quick reference glossary with 400 key terms.

The book is user-friendly because it places emphasis on the basics. We believe that students learn more effectively when they first achieve a firm grasp of the basics. To stress the basics, we initially devoted several chapters to the fundamental concepts of international finance. Once the basics are learned, the advanced material naturally follows. As more advanced topics are developed in later chapters, we always tie this material back to the fundamentals in order to facilitate the learning process and to provide students with the big picture.

## ■ | **Why is *Global Corporate Finance* a Readable Text?**

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This book is readable and easy to understand because it discusses all the basic tools and techniques of global finance without a complex treatment of theoretical concepts. Students are frustrated when they have to study mathematical formulas without corresponding numerical examples. Practically all of the formulas used in the book are accompanied by practical but straightforward numerical examples. Furthermore, it does not contain many complex mathematical formulas.



We are aware of the fact that students are also frustrated when key terms are highlighted in bold type but not clearly defined. Sometimes students have to read a few more sentences to fathom these terms. To eliminate this frustration, we have made an extra effort to clearly define every key term when it is highlighted in bold type.

As with the first three editions, in the fourth edition we remain strongly committed to presenting the concepts of global finance in a straightforward and interesting manner. We have emphasized readability because we believe it will motivate readers to pursue further knowledge and to enroll in follow-up courses to expand their understanding of international finance.

## ■ | **Why is *Global Corporate Finance* a Brief Text?** \_\_\_\_\_

If you turn to the end of this book, you will find that it is one or two hundred pages shorter than many of the standard texts used to teach global finance. To reach a wide audience, we felt that one characteristic of the book would be especially critical: its length.

This brevity has not sacrificed either coverage or clarity. We continue to feel strongly that introductory students should be exposed to all the basic elements of international finance. Thus, in this book we covered all the basic concepts and techniques of international finance without extraneous details that distract students from the key lessons. Our class test of the manuscript proved that the two special features of this book are its clarity and simplicity. Brevity has been achieved by presenting the principles of global finance in the fewest words possible.

Since the first edition of this book we have started each consequent revision with the same principle guiding us, that is, planning anew rather than depending on what we had written before. This approach undoubtedly helped us avoid two potential problems: overlooking important changes in international finance and increasing the length of the book. The fourth edition contains one new chapter, nineteen new cases, and many new sections, but its length remains about the same as that of the previous edition.

## ■ | **Why is *Global Corporate Finance* Accompanied by a Highly Competitive Set of Supplements?** \_\_\_\_\_

A computer diskette containing the Student Study Guide for *Global Corporate Finance* is provided in the back of the textbook. Each chapter in the guide includes: a list of chapter objectives, a detailed chapter outline, a list of key terms and concepts along with definitions, multiple-choice questions, and review problems with solutions for key chapters.

Adopters of *Global Corporate Finance* can also request two additional computer diskettes for their students. These two diskettes contain spreadsheet solutions for all numerical examples and many end-of-chapter problems for the following three foreign exchange chapters: chapter 5: An Overview of Foreign Exchange Markets, chapter 8: Exchange-Rate Forecasting, and chapter 9: Foreign Exchange Risk Management. To obtain these diskettes, adopters of the book should contact Suk H. Kim at the University of Detroit Mercy.

There is a website devoted to *Global Corporate Finance*. We encourage you to visit the site at [www.mich.com/~kimsuk/](http://www.mich.com/~kimsuk/). In addition to providing useful information about the book, this site will also direct visitors to World Wide Web sites that provide reliable and interesting international finance information.

Transparency masters of lecture notes (prepared by the authors) are also available to adopters of the book. To obtain these and other pertinent information, please contact Suk H. Kim at his email addresses: [kimsuk@udmercy.edu](mailto:kimsuk@udmercy.edu), [kimsuk@mich.com](mailto:kimsuk@mich.com), or at his website: [www.mich.com/~kimsuk/](http://www.mich.com/~kimsuk/).

A comprehensive Instructor's Manual is available for adopters of *Global Corporate Finance*. The Instructor's Manual contains a complete set of ancillary materials which include the following: chapter outlines, chapter objectives, answers to end-of-chapter problems, a test bank of 500 multiple-choice questions, and transparency masters of key tables and figures from the book.



# CHANGES TO THE FOURTH EDITION

We have carefully revised the fourth edition to reflect changes in the field of global finance. In response to reader suggestions, we have added a new chapter, condensed and expanded most chapters, eliminated five cases, discussed many practical examples as an integral part of the text, and added nineteen new cases. These and other changes are designed to place the focus of the book on managerial finance for multinational companies.

A new chapter 8, “Exchange Rate Forecasting,” covers four relative topics: (1) measuring a change in exchange rate, (2) forecasting needs of the multinational company, (3) forecasting floating exchange rates, and (4) forecasting fixed exchange rates.

Nineteen new cases have been added to show real-world applications and contemporary issues on topics relevant to international finance. All these nineteen cases are undisguised real cases. We discuss the Mexican peso crisis in December 1994 and the Asian currency crisis in 1997 through three real cases. Six cases from the third edition have been updated. Each of the first nineteen chapters has a real mini-case at the end of the chapter. Moreover, Internet exercises at the end of each case have been added to explain how the Internet can be used to access international financial data and obtain information on the case concepts.

Chapter 1, “Introduction,” has been rewritten entirely to cover several new topics: reasons to study international finance, multinational company performance, and seven principles of global finance. Chapter 2, “Motives for World Trade and Foreign Investment,” has been substantially revised to describe absolute advantage versus comparative advantage, benefits of open trade, corporate response to trading blocs, and stages of the investment development cycle. Chapter 3, “The Balance of Payments,” discusses the balance-of-payments identity in a new section and expands on the growing trade friction between the United States and Japan. Chapter 4,

“The International Monetary System,” has been rewritten entirely to shorten our discussion on the history of the international monetary system and to expand the coverage of contemporary issues, such as the Mexican peso crisis in December 1994, the Asian currency crisis in 1997, and the euro.

Chapter 5, “An Overview of the Foreign Exchange Market,” discusses three new topics: the size of the foreign exchange market, measuring a percentage change in spot rates, and the bid–ask spread. Chapter 6, “Currency Futures and Options,” analyzes payoffs for unhedged futures contracts in a new section with a graph. Chapter 9, “Foreign Exchange Risk Management,” has been condensed because a substantial portion of this chapter has been moved to a new chapter 8, “Exchange Rate Forecasting.” chapter 9 has two new sections: the use of hedging techniques by multinational companies and a maturity mismatch in a German firm’s oil futures hedge.

Chapter 10, “International Financial Markets,” shortens the coverage of Eurodollars and discusses privatization in a new section. Chapter 11, “International Banking Operations and Country Risk Analysis,” examines the possibility of a new global debt crisis and sovereign-government bond ratings in new sections. Chapter 12, “Financing Foreign Trade”, expands the coverage of countertrade and has a new section on export-financing methods in practice. Chapter 13, “Financing Foreign Investment,” examines project finance as a new topic.

Chapter 14, “Current Asset Management,” summarizes international cash-management practices. Chapter 15, “International Portfolio Investment,” expands the coverage on methods of international diversification. Chapter 16, “Foreign Direct Investment Strategy,” has been substantially revised to eliminate several sections and add a new topic on implications of increased private-investment flows. Chapter 19, “Political Risk Management,” has been updated and shortened to reflect current trends in political risk analysis.

All three chapters in part five, “Global Reporting and Controlling,” have been updated and shortened. Chapter 22, “International Transfer Pricing,” covers the use of transfer pricing methods in a new section.

# ACKNOWLEDGMENTS

Many individuals have provided constructive advice critical to the successful development of the fourth edition. We would like to express our thanks to Dean Gary A. Giamartino (University of Detroit Mercy) and Dean Neil Seitz (St. Louis University) for their support and encouragement. A number of our students deserve special acknowledgments for their contributions: Marg Aita, Brenda Baker, Stacy Banks, Ikram Charif, Jonathan Du, and Jean-Paul Meurcheho. We gratefully acknowledge many comments and suggestions from our friends:

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We hope that adopters of this book do not hesitate to contact us with their comments for improvement. Please let us know either through Blackwell Publishers, c/o Editorial, or at my e-mail address: kimsuk@udmercy.edu

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