

International Financial Management

7th Edition



Jeff Madura

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INTERNATIONAL FINANCIAL MANAGEMENT

7TH EDITION

JEFF MADURA
Florida Atlantic University

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Cover Photograph:
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Printed in the United States of
America
1 2 3 4 5 05 04 03 02

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Library of Congress Cataloging-in-
Publication Data
Madura, Jeff.

International financial manage-
ment / Jeff Madura.—7th ed.
p. cm.

Includes bibliographical refer-
ences (p.) and index
ISBN: 0-324-07174-4 (alk. paper)
1. International finance. 2.

Foreign exchange. 3. Asset-liability
management. 4. Banks and bank-
ing, International. 5. International
business enterprises--Finance.
I. Title.

Pkg ISBN 032416551X = book
0324071744 + CD 0324165528

HG3881 .M2765 2003
658.15'99--dc21

2001049897

PREFACE

Multinational corporations (MNCs) competing in the global marketplace must not only be properly managed to apply their comparative advantages in foreign countries, but also manage their exposure to the various forms of risk as they capitalize on their international business opportunities. Their exposure is especially pronounced in developing countries where currency values and economies are volatile. As international conditions change, so do opportunities and risk.

In general, changes in international conditions make international financial management more challenging. MNCs respond by meeting the challenge rather than retreating. Those MNCs that are most capable of responding to changes in the international financial environment will be rewarded. The same can be said for the students today who may become the future managers of MNCs.

In particular, the use of the euro in many European countries not only affects exposure to exchange rate risk, but alters competition within Europe, the pricing of products in Europe, and the valuations of companies in Europe. Furthermore, the privatization of firms around the world is creating more opportunity and more global competition.

INTENDED MARKET

This text helps to explain the international environment in which firms will be operating. It presumes an understanding of basic corporate finance. It is suitable for both undergraduate and master's level courses in international financial management. For master's courses, the more challenging questions, problems, and cases in each chapter are recommended.

ORGANIZATION OF THE TEXT

This text is organized first to provide a background on the international environment and then to focus on the managerial aspects from a corporate perspective. Managers of MNCs will first need to understand the environment before they can manage within it.

The first two parts of the text provide the macroeconomic framework for the text. Part I (Chapters 1 to 5) introduces the major markets that facilitate international business. Part II (Chapters 6 to 8) describes relationships between exchange rates and economic variables, and explains the forces that influence these relationships.

The remainder of the text provides a microeconomic framework, with a focus on the managerial aspects of international financial management. Part III (Chapters

9 to 12) explains the measurement and management of exchange rate risk. Part IV (Chapters 13 to 18) describes the management of long-term assets and liabilities, including motives for direct foreign investment, multinational capital budgeting, country risk analysis, and capital structure decisions. Part V (Chapters 19 to 21) concentrates on the MNC's management of short-term assets and liabilities, including trade financing, other short-term financing, and international cash management.

Each chapter is self-contained, so that professors can use classroom time to focus on the more comprehensive topics and rely on the text to cover the other concepts. The management of long-term assets (chapters on direct foreign investment, multinational capital budgeting, multinational restructuring, and country risk analysis) is covered before the management of the long-term liabilities (chapters on capital structure and long-term financing), since the financing decisions are dependent on the investments that they support. Yet, concepts are explained with an emphasis of how management of long-term assets and long-term liabilities is integrated. For example, the multinational capital budgeting analysis demonstrates how the feasibility of a foreign project may be dependent on the financing mix.

The strategic aspects such as motives for direct foreign investment are covered before the operational aspects such as short-term financing or investment. For professors who prefer to cover the MNC's management of short-term assets and liabilities before the MNC's management of long-term assets and liabilities, the parts can be rearranged because they are self-contained.

APPROACH OF THE TEXT

International Financial Management is designed in recognition of the unique styles of instructors for reinforcing key concepts within a course. Numerous methods of reinforcing these concepts are provided in the text so instructors can select the methods and features that fit their teaching styles. Key concepts are reinforced in the following ways.

1. **PART-OPENING DIAGRAM:** A diagram is provided at the beginning of each part to illustrate in general terms how the key concepts covered in that part are related. This offers some intuition about the organization of chapters in that part.
2. **OBJECTIVES:** The key concepts are identified within a bulleted list of objectives at the beginning of each chapter.
3. **EMPHASIS:** The key concepts are thoroughly described in the chapter and supported by examples and illustrations.
4. **NIKE PROBLEM:** Some of the key concepts are applied to Nike's international business within the chapter to illustrate the reality of these concepts.
5. **MANAGING FOR VALUE:** This feature illustrates how one or more key concepts relate to a particular MNC's value. It focuses on well-known MNCs such as DuPont, Honda, Intel, and Yahoo!.
6. **FINANCIAL MARKETS PERSPECTIVE:** These features show how international financial markets are related to international financial management and can facilitate an MNC's operations.
7. **ONLINE APPLICATION:** These applications identify Web sites that provide information related to one or more chapter concepts.
8. **VALUATION OF THE MNC:** Since the underlying objective of an MNC's managers is to maximize the value of the MNC, it is important to recognize

- how the concepts discussed in the text relate to the MNC's value. Some key concepts in the chapter are applied to the MNC valuation diagram near the end of each chapter to demonstrate how the concepts can affect the value of an MNC.
9. **SUMMARY:** The key concepts are summarized at the end of the chapter in a bulleted list that corresponds to the list of objectives at the beginning of the chapter.
 10. **SELF TEST:** A "Self Test" at the end of the chapter challenges students on the key concepts. The answers to these questions are provided in Appendix A.
 11. **QUESTIONS AND APPLICATIONS:** Many of the questions and other applications at the end of the chapter test the student's knowledge of the key concepts in the chapter. Near the end of this section is the "Internet Application" that identifies a specified web site related to key concepts and requires students to access the web site to answer questions about the concepts.
 12. **CONTINUING CASE:** At the end of each chapter, the continuing case allows students to use the key concepts to solve problems experienced by a firm called Blades, Inc. (a producer of roller blades). By working on cases from each chapter that relate to the same firm over a school term, students see how a firm can develop its international business over time as well as the rewards and challenges resulting from its growth in international business.
 13. **SMALL BUSINESS DILEMMA:** The Small Business Dilemma at the end of each chapter places students in a position where they must use concepts introduced in the chapter to make decisions about a dilemma experienced by one particular small business called Sports Exports Company.
 14. **INTEGRATIVE PROBLEM:** The Integrative Problem at the end of each part integrates the key concepts across chapters within that part.
 15. **SUPPLEMENTAL CASES:** Supplemental cases allow students to apply chapter concepts to a specific situation of an MNC. All Supplemental Cases are located in Appendix B at the end of the text.
 16. **FOUR ONLINE PROJECTS:** There are four different online projects, each of which is provided on the CD-Rom and intended to place students in a decision-making mode: Real-Time Web Project, Running Your Own MNC, Online Analysis of an MNC, and the International Stock Project.

MAJOR CHANGES TO THIS EDITION

More Emphasis on Valuation. This edition has been changed where appropriate to increase the emphasis on valuation concepts. The insert **MANAGING FOR VALUE** has been added to each chapter in this edition to illustrate how each chapter's key concepts can affect the value of an MNC. This boxed insert is compatible with the **VALUATION OF AN MNC** section that summarizes how the key concepts in each chapter are related to valuation.

More Emphasis on the Euro. The euro's impact on MNCs since its inception is given attention in this edition. For example, the impact of the euro's weakness on MNCs located in the Eurozone and outside the Eurozone during the year 2000 is discussed.

Financial Impact of September 11: The international business environment was affected by the events of September 11. Financial managers must recognize how

international financial markets are exposed to such events, so that they can still make proper decisions. A question about the financial impact of September 11 is provided at the end of each chapter, intended to generate class discussion.

Devaluation of the Argentine Peso. In January 2002, the Argentine peso was devalued against the U.S. dollar, from a peg of \$1 per peso to \$.71 per peso (1.4 pesos per dollar). The strategy of pegging a currency is given much attention in chapter 6.

Use of the Internet to Expand Projects. The project **RUNNING YOUR OWN MNC** is now on the CD, and contains Internet links for easy access to review related information as students develop an international business plan for the business they created. The project **ONLINE ANALYSIS OF AN MNC** (previously called **Focus on an MNC**) is also on the CD and also includes Internet links for access to related information for review before answering questions about the MNC selected.

Two New Projects. Two new projects have been added to this edition to offer additional means by which students can recognize how key concepts can be applied.

The **REAL-TIME WEB PROJECT** introduces a business idea to be managed by the students. The business sells information about college campuses in the United States to prospective Brazilian customers. Students are required to apply chapter concepts to develop some plans for this business for every chapter, so it is a form of an ongoing case. In each chapter, students click on a link to a specific website that gives them some info that can help them plan this business. Since this project is on the CD, it allows students to click on website links to review information before finalizing their plans for this business.

The **INTERNATIONAL STOCK PROJECT** allows students to create their own international stock portfolio that contains at least 2 U.S.-based MNCs and 2 foreign stocks. They monitor this portfolio over time, and determine why it performed well or poorly over the school term. They complete a report at end of term that answers questions about sensitivity of each stock to U.S. market and corresponding foreign market of foreign stock. Since this project is on the CD, it allows students use website links to conduct the analysis required to complete their report.

ONLINE RESOURCES

The text web site at <http://madura.swcollege.com> provides numerous resources for both students and instructors.

Online Quizzes. Online Quizzes reinforce student comprehension of chapter concepts. It provides answers with immediate feedback, so students know why the correct answer is correct. The quizzes may be sent to the student's instructor for grading or credit.

Data Bank. A data bank provides quarterly data on spot exchange rates, forward rates, interest rates, inflation rates, balance of trade data, and additional economic data for several countries since 1973.

References. References to related readings are provided for every chapter.

Internet Links. Links noted in each chapter are provided for easy access with a click.

OTHER SUPPLEMENTS

The following supplements are available to students and instructors:

For the Student

Student CD-ROM. New to this edition, the Student CD-ROM contains the following projects and supplements:

- **Real-Time Web Project.** In this project, students are introduced to a business idea requiring them to sell information about U. S. college campuses to prospective Brazilian customers. Students must apply chapter concepts to develop some plans for this business in each chapter, making it an “ongoing case.” In each chapter, students click on a link to a specific web site that gives them information to help them plan the business. From the CD, students can link to web sites to review information before finalizing their plans for the business. For example, students will be directed to a specific web site to review spot and futures rates and assess whether to hedge Brazilian real currency inflows to be received in future. They can copy the online questions to their computer or to a disk, and insert their answers following the questions related to each specific chapter. By the end of the school term, students will have a consolidated report that is built from applying the key concepts from every chapter.
- **Running Your Own MNC.** Students are asked to create and develop their own international business, based on specific concepts from each chapter. This project has been revised since the previous edition to provide various Internet links for students to review before making decisions as they establish their businesses. The CD allows students to click on Internet links to review information before finalizing their plans. Students can copy the online questions to their computer or to a disk, and insert their answers to questions related to each specific chapter. By the end of the school term, they will have a consolidated report that is built from applying the key concepts of every chapter.
- **Online Analysis of an MNC.** This project enables students to apply key concepts to a specific MNC of their choice. It also gives students experience in retrieving and reviewing an annual report online, and in linking theory in the text with actual practice. There are questions with Internet links for students to review additional information on the selected firms. These questions provide students with an opportunity to apply relevant concepts from the text to their chosen MNC. For example, they will be directed to a web site to obtain information about the firm and about the countries where the firm conducts business. Again, the CD provides students with easy access to web sites to review information before finalizing their plans for the business. They can copy the online questions to their computers or to disks, and insert the answers to the questions related to each specific chapter. By the end of the school term, students will have a consolidated report that is built from applying the key concepts of every chapter.
- **International Investing Project.** Students are challenged to create their own international stock portfolio containing at least two U.S.-based MNCs and two foreign stocks. They monitor the portfolio during the school term and determine why it performed well or poorly over time. Students complete a report at end of term that answers questions about sensitivity of each stock to the U.S. market and the corresponding foreign market of foreign stock. The CD allows students

easy access to the Internet links to conduct the analysis required for their report. At the professor's option, the investment horizon could be monthly instead of over the entire term. That is, students could be allowed to rebalance their portfolio at the beginning of each month and answer the related questions at the end of each month. Students can copy the online questions onto their computer or to a disk, and insert their answers to the questions.

PowerPoint Lecture Slides. PowerPoint Slides, created by Yee Tien Fu of National Cheng-Chi University, are available in three versions, with two available on the text web site: Basic Lecture Slides and Expanded Slides. Expanded PowerPoint Slides contain the Basic Lecture Slides along with figures. The third version, Enhanced PowerPoint Slides, contain the Basic Lecture Slides, figures, Internet links, and links to the Excel templates.

Excel Templates. New to this edition, Excel templates, created by the author and Raj Kohli, University of Indiana—South Bend, provide quantitative exercises for many chapters. An Excel icon appears in the text margins to indicate which problems have corresponding templates.

Study Guide. Revised by Jeff Madura and Oliver Schnusenberg, of St. Joseph's University, the Study Guide focuses on helping students test their knowledge of the text material. It simulates test questions for key terms and key concepts, with numerous matching, multiple choice, and true/false questions for every chapter.

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For the Instructor

Instructor's Manual/Test Bank. The Instructor's Manual contains the chapter theme, topics to stimulate class discussion, and answers to end of chapter Questions, Case Problems, Continuing Cases (Blades, Inc.), Small Business Dilemmas, Integrative Problems, and Supplemental Cases. An expanded Test Bank containing 880 questions in multiple choice or true/false format includes content questions as well as problems.

ExamView™ Computerized Testing. The *ExamView™* computerized testing program contains all of the questions in the printed test bank. *ExamView™* is an easy-to-use test creation software compatible with Microsoft Windows. Instructors can add or edit questions, instructions, and answers, and select questions by previewing them on the screen—selecting them randomly or by number. Instructors can also create and administer quizzes online, whether over the Internet, a local area network (LAN), or a wide area network (WAN).

PowerPoint Presentation Slides. Revised for this edition by Yee-Tien Fu of National Cheng-Chi University, these PowerPoint slides are intended to enhance lectures and

provide a guide for student note-taking. Versions 1 and 2, the Basic Lecture Slides, and the Expanded Lecture Slides, can be downloaded from the text web site. Version 3 and Enhanced PowerPoint Lecture Slides are available on the CD-ROM.

South-Western Finance Resource Center (<http://finance.swcollege.com>). The South-Western Finance Resource Center provides unique features, including Finance in the News, FinanceLinks Online, Wall Street Analysts Reports, the Digital Finance Case Library, and more, as well as customer service information and relevant product information and links. You may learn how to become an author with South-Western, request review copies, contact the finance editors, register for Thomson Investors Network, and more.

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ACKNOWLEDGMENTS

Several people have contributed to the textbook. First, the motivation to write the textbook was primarily due to encouragement by professors Robert L. Conn (Miami University of Ohio), E. Joe Nosari and William Schrode (Florida State University), Anthony E. Scaperlanda (Northern Illinois University), and Richard A. Zuber (University of North Carolina at Charlotte).

Many of the revisions and expanded sections contained in this edition are due to comments and suggestions from students who used previous editions. In addition, many professors reviewed various editions of the text and had a major influence on its content and organization. All are acknowledged in alphabetical order:

Raj Aggarwal, John Carroll University
 Alan Alford, Northeastern University
 H. David Arnold, Auburn University
 Robert Aubey, University of Wisconsin
 Bruce D. Bagamery, Central Washington University
 James C. Baker, Kent State University
 Gurudutt Baliga, University of Delaware
 Laurence J. Belcher, Stetson University
 Bharat B. Bhalla, Fairfield University
 Rita Biswas, State University of New York at Albany
 Sarah Bryant, George Washington University
 Francisco Carrada-Bravo, American Graduate School of International Management
 Andreas C. Christofi, Azusa Pacific University
 Alan Cook, Baylor University
 W. P. Culbertson, Louisiana State University

Andrea L. DeMaskey, Villanova University
 Robert Driscoll, Ohio State University
 Paul Fenton, Bishop's University
 Stuart Fletcher, Appalachian State University
 Robert D. Foster, American Graduate School of International Management
 Hung-Gay Fung, University of Baltimore
 Juli-Ann E. Gasper, Texas A&M University
 Deborah W. Gregory, Bentley College
 Nicholas Gressis, Wright State University
 Indra Guertler, Babson College
 Ann M. Hackert, Idaho State University
 Joel Harper, Florida Atlantic University
 John M. Harris, Jr., Clemson University
 Ghassem Homaifar, Middle Tennessee State University
 Nathaniel Jackendoff, Temple University
 Kurt R. Jesswein, Texas A&M International

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 Frederick J. Kelly, Seton Hall University
 Robert Kemp, University of Virginia
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 Suresh Krishnan, Pennsylvania State University
 Boyden E. Lee, New Mexico State University
 Jeong W. Lee, University of North Dakota
 Carl Luft, DePaul University
 K. Christopher Ma, KCM Investment Co.
 Richard D. Marcus, University of Wisconsin—
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Anna D. Martin, Fairfield University
 Wendell McCulloch, Jr., California State
 University—Long Beach

Carl McGowan, University of Michigan at Flint
 Stuart Michelson, Stetson University
 Edward Omberg, San Diego State University
 Prasad Padmanabhan, San Diego State University
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 Mahmoud S. Wahab, University of Hartford
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 Ann Marie Whyte, University of Central Florida
 Marilyn Wiley, Florida Atlantic University
 Larry Wolken, Texas A & M University
 Glenda Wong, De Paul University
 David Zalewski, Providence College
 Emilio Zarruk, Florida Atlantic University
 Stephen Zera, California State University—San
 Marcos

Beyond the suggestions provided by reviewers, this edition also benefited from the input of my colleagues at Florida Atlantic University, including Georgina Benou, John Bernardin, Antoine Giannetti, Joel Harper, Marilyn Wiley, and Emilio Zarruk. I also wish to thank Steve Borde (University of Central Florida), Mike Dosal (SunTrust Bank, Orlando), Suk Hun, Victor Kalafa (Cross Country Inc.), Fraser McHaffie (Marietta College), Oliver Schnusenberg (St. Joseph's University), Alan Tucker (Pace University), and Ann Marie Whyte (University of Central Florida).

The people at South-Western have made many contributions to this edition. Editors Susan Smart and Mike Mercier were helpful in all stages of the writing and revising. A special thanks is due to the production editor, Amy McGuire, for her efforts to ensure a quality final product.

Finally, I wish to thank my parents, Arthur and Irene Madura, and my wife, Mary, for their moral support.

Jeff Madura
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ONLINE APPLICATION CREDITS

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