Overview
In this class, we focus on the special risk faced by firms when they operate in an environment subject to changes in exchange rates. The course combines class lectures with case discussions. The class lectures, roughly in the first half of the course, will provide the necessary tools and theory that will then be useful for analyzing the cases in the second half of the course. Each of the cases we analyze focuses on a problem faced by top executives of the firm that stems from the international environment that the firm operates within. We will discuss possible solutions, focusing considerably on the quantification of the risk and the different ways in which the risk can be managed. The objective of the class is to get students to develop the ability to distil the major issues, develop alternative strategies to deal with them, and evaluate pros and cons of each alternative in a coherent manner.

Class Preparation & Participation
Class preparation and participation is a must. It is expected that each student has read the case and is prepared to start the discussion. I will call upon a student to summarize the case. The cases will typically be discussed over two days. I will discuss the case and analyze the main issues on the first day. On the second day, there will be case presentations by one of the student groups.

Grading
The course has a modest number of deliverables – one mid-term, four group write-ups of cases, and a final project. Other elements of the grade are based on the group work required in the course.

30% - Mid-term
There will be only one exam that will be held in the middle of the semester.

40% - Write-ups
Each group must turn in 4 case write-ups, and present these cases in class. You decide which four (of the six) cases you want to write up. The write-ups should be professional, addressed to the CEO/CFO as an internal or consulting report.
This means you must be precise and comprehensive. The write-ups should be no longer than 2 pages, plus a few appendices or tables as needed.

In the write-ups, do not re-invent the wheel. No detailed background is needed in the write-up – a few lines should suffice (in other words, don’t repeat the material from the case except to the extent that you want to focus on a particular number). On the other hand, do not assume I am intimately familiar with every number in the case. Exercise judgment on what is necessary to make the write-up coherent. In any event,
- Take a clear stand on the central case problem
- Provide a recommended course of action.

20% - Project
Each group will be required to do one project. Do something that you find interesting and worthwhile, and keep it small and tightly focused. Of course, the project must deal with an issue that falls under the wide gamut of International Finance.

10% -- Peer Evaluations and class participation
Towards the end of the semester, each student will evaluate every other student individually. Participation and attendance, contribution to group preparation, write-ups and the term project, and the overall rating as a colleague can be used as criteria for this grade. In addition, I will also take into account the class participation and attendance of the student in determining this portion of the grade.

Course Package
The course packet that consists of 11 Harvard Business School cases and notes is the only required material for the course. If required, I will put some textbooks in the reading room for reference:

1. HBS # 9-799-088 Currency Crises
2. HBS #9-799-089: Note on Currency Crises
3. HBS #9-205-016 Note on Foreign Exchange Markets
4. HBS #9-288-016 Note on Fundamental Parity Conditions
5. HBS #9-288-017: Note on Transaction and Translation Exposure
6. HBS # 9-288-018: Note on Operating Exposure to Exchange Rate Changes
7. HBS #9-205-026: Hedging Currency Risk at AIFS
8. HBS #9-295-047 Tiffany & Co. 1993
10. HBS# 9-286-006: Universal Circuits, Inc.
11. HBS #9-290-005: Jaguar plc, 1984
DETAILED CLASS SCHEDULE
Holidays: Columbus Day is October 10, Monday schedule on October 12
Thanksgiving is November 24. Last day of class is December 14.

Week 1: September 7
Introduction and Overview of Class
Emphasis on the risks imposed by exchange rates, and how corporations should manage this risk.

Week 2: September 14
Exchange Rates and Currency Crises
HBS Case # 9-799-088 Currency Crises
Reading:
HBS Case # 9-799-088 Currency Crises
HBS #9-799-089: Note on Currency Crises

Week 3: September 21
Student Case Presentation: Exchange Rate Crises
Exchange Rate Markets
Reading:
HBS Case # 9-799-088 Currency Crises
HBS #9-799-089: Note on Currency Crises
HBS #9-205-016 Note on Foreign Exchange Markets

Week 4: September 28
The Parities: Purchasing Power Parity, Interest Rate Parity
Reading:
HBS #9-205-016 Note on Foreign Exchange Markets
HBS #9-288-016 Note on Fundamental Parity Conditions

Week 5: October 5
Hedging Instruments: Forwards and Options
Reading:
Class Notes
HBS #9-205-016: Note on Foreign Exchange Markets
HBS #9-288-016 Note on Fundamental Parity Conditions

Week 6: October 12:
No Class (Monday Schedule)
Week 7: October 19
**Midterm Exam**
Case: Hedging Currency Risk at AIFS
Reading:
HBS #9-205-026: Hedging Currency Risk at AIFS

Week 8: October 26
Case: Tiffany & Co. 1993
Reading:
HBS #9-295-047 Tiffany & Co. 1993

Week 9: November 2
Case: Hintz-Kessels-Kohl A.G.
Reading:
HBS #9-284-019: Hintz-Kessels-Kohl A.G.

Week 10: November 9
**Transaction, Translation and Operating Exchange Rate Exposure**
Reading:
HBS #9-288-017: Note on Transaction and Translation Exposure
HBS #9-288-018: Note on Operating Exposure to Exchange Rate Changes

Week 11: November 16
Case: Universal Circuits, Inc
Reading:
HBS 9-286-006: Universal Circuits, Inc.

Week 12: November 23 [November 24 is Thanksgiving]
Case: Jaguar plc, 1984
Reading:
HBS 9-290-005: Jaguar plc, 1984

Week 13: November 30
Case: Jaguar plc, 1984
Reading:
HBS 9-290-005: Jaguar plc, 1984

Week 14: December 7
Project Presentations
Case Questions

1. Currency Crises
   a. For each of the unidentified country, discuss whether the country is on the verge of a crisis.
   b. Suppose you were in charge of the financial policies of the country that you think is most likely to be subject to a crisis. What would you do to prevent it?

2. Hedging Currency Risk at AIFS
   a. Recommend a hedging strategy for AIFS. Specifically, state what percentage of the costs should be covered, and whether the firm should use options or forward contracts.
   b. What are the risks of your hedging strategy? Please quantify the risk.

3. Tiffany and Co.
   a. Should Tiffany actively manage its yen-dollar exchange rate risk? Why or why not?
   b. If Tiffany were to manage exchange rate risk activity, what should be the objectives of such a program? Specifically, what exposures should be actively managed? How much of the exposures should be covered and for how long? What instruments should be used – options or forward/futures?

4. Hintz-Kessels-Kohl A. G.
   a. How attractive would the Costa Rican contract be to HKK assuming alternatively, (i) no change in the $/As exchange rate, and (ii) a depreciating dollar. For simplicity, assume no OKB financing at this stage.
   b. How much OKB financing could be potentially be made available in connection with the Costa Rican contract? How much more attractive might the contract be because of such financing.
   c. Would you cover the currency exposure assuming the contract is denominated in US$? Why or why not?

5. Universal Circuits
   a. Does Universal Circuit’s Irish controller have a convincing argument for the weakness of the dollar? Why or why not? How do you interpret the evidence?
b. In view of the fact that the dollar is the Irish subsidiary’s “functional currency,” should the controller be worried about its exchange value? What is the nature of the foreign exchange exposure(s) faced by the Irish subsidiary? Why isn’t the Irish subsidiary’s functional currency the Irish punt?

c. Would you approve the controller’s request to buy the punt forward? What considerations factor into your decision?

6. Jaguar plc, 1984

a. Consider Jaguar’s exchange rate exposures. To which currency is Jaguar exposed? What are the sources of these exposures? How would the company be affected by a 25% decline in the value of the dollar?

b. How should Jaguar’s shares be priced? Estimate the likely value of Jaguar’s equity in the following scenarios:
   (i) no change in the real exchange rate between the dollar and the pound.
   (ii) A 25% drop in the real value of the dollar against the pound.
   (iii) A 10% rise in the real value of the dollar against the pound.

You can create other scenarios of your own, but in doing so, consider reasonable changes in price, volume, and other variables.