RUNNING YOUR OWN MNC *(AS MENTIONED AT THE END OF ALL THE CHAPTERS)*

In each chapter of this text, you have the opportunity to apply the key concepts to your own idea about running an MNC. Many existing MNCs are small firms that focus on exporting a single product to a single country. The exported products could be sold to a single distributor based in a foreign country or could even be sold through the mail based on demand from mail-order ads. Your idea may be an extension of an idea you had for a business within the United States. It should focus on one particular foreign country and one particular foreign currency (the local currency of that country), since many of the questions within this project will allow you to learn more about that country and currency.

PART I – THE INTERNATIONAL FINANCIAL ENVIRONMENT

Chapter 1 Running Your Own MNC

Developing Your Idea

Create an idea for your own MNC to conduct international business. Your idea should be sim-plified to the degree that you could possibly implement it someday. However, your idea should also be sufficiently creative to be success-ful if done properly. Your idea should focus on one country and one foreign currency, since many MNCs are focused in this manner when they are first created. So that you can recognize the issues regarding exchange rate risk that are discussed throughout this text, you should assume that you will receive foreign currency when selling your product. Your idea should be for a small MNC instead of a large MNC because even most large MNCs began as small firms. The following questions will help you define your MNC idea:

1. What is the product that you plan to sell?
2. What foreign country do you plan to target?
3. How will you sell the product in that country? (i.e., Through a distributor? By mail?)
4. Is there some evidence that consumers in that country would buy this type of product?
5. Do you need to purchase supplies or to hire labor?
6. Will any expenses you incur from producing the product be in dollars or some other currency?

Chapter 2 Running Your Own MNC

Assessing Country Factors That Will Affect the Demand for Your Product

1. Identify the factors that can affect the balance of trade between the United States and the country that you targeted for your business. Explain how each of these factors may affect the demand for your product.
2. Which of these factors is likely to be most important in affecting the demand for your product?

Accessing Trade Data

Determine whether the product you plan to sell is already one of the main exports to that country.

Accessing Import Controls

Review the import controls set by that country's government. Determine whether your business would be affected by trade regulations.

Chapter 3 Running Your Own MNC

Using the Foreign Exchange Market

1. Explain how you will use the spot market for your business.
2. What bank do you plan to use to exchange the foreign currency received for dollars? What is the bid/ask spread on a recent quotation by that bank? (Call the bank to obtain quotations.)
3. Will you possibly need the forward market? Explain.

Accessing Bid/Ask Rates

Go to http://sonnet-financial.com/rates/full.asp. Determine the prevailing bid and ask exchange rates for the currency that you will use for your business transactions.

Accessing Recent Exchange Rates

Go to http://www.oanda.com. Click on FXTrends. Explain how the main foreign currency for your business has changed over the last month, the last three months, and the last year.

Chapter 4 Running Your Own MNC

Monitoring Movements in the Foreign Currency's Value

What key factors likely affect the value of the foreign currency of concern over time?

Chapter 5 Running Your Own MNC

Using Currency Futures and Options

1. How can you use currency futures to hedge the exchange rate risk of your MNC?
2. How can you use currency options to hedge the exchange rate risk of your MNC?

Accessing Futures Quotes

Go to http://www.cme.com. Determine the prevailing futures price of the main foreign currency for your business. Go to http://www.oanda.com and determine the prevailing spot rate. What is the discount or premium of the futures price?

PART II – EXCHANGE RATE BEHAVIOUR

Chapter 6 Running Your Own MNC

Monitoring Central Bank Intervention

1. How can your business be affected if the Fed attempts to strengthen the dollar in the for-eign exchange market?
2. If the Fed decides to weaken the dollar, how will your business be affected?
3. How can indirect central bank intervention affect your business even if there is no impact on exchange rates?

Accessing Central Bank Information

Go to http://patriot.net/~bernkopf/. Go to the Web site link for the central bank in your target country. Determine whether this central bank intervenes to control its currency in the foreign exchange market.

Chapter 7 Running Your Own MNC

Assessing Spot and Forward Rates

1. Obtain a quotation for the spot rate of the foreign currency (that you will receive from your business) from the bank where you intend to conduct your foreign exchange transactions. Then, obtain a quotation for the spot rate of the foreign currency from another bank. Does it appear that the spot rates are aligned across locations at a given point in time?
2. Obtain a quotation for the one-year forward rate of the foreign currency from the bank where you intend to conduct your foreign exchange transactions. Then, use a business periodical to determine the prevailing one-year interest rates in the United States and the foreign country of concern. Does it appear that interest rate parity exists?
3. Review the data on forward rates from *The Wall Street Journal* or another source to determine whether the foreign currency of concern typically exhibits a discount or a premium. Then review data on interest rates to compare the foreign country of concern and the U.S. interest rates. Does it appear that the forward rate of the foreign currency exhibits a premium (discount) when its interest rate is lower (higher) than the U.S. interest rate, as suggested by interest rate parity?

Chapter 8 Running Your Own MNC

Determining Whether IFE Holds

Use *The Wall Street Journal* or another data source to record the interest rate differential between the interest rate of the foreign country in which you plan to do business and the U.S. rate over the last five or so quarters. Then, review the exchange rate percentage change in the foreign currency of concern over each of those corresponding quarters to determine whether the international Fisher effect (IFE) appears to hold over those quarters for that currency.

PART III – EXCHANGE RATE RISK MANAGEMENT

Chapter 9 Running Your Own MNC

Monitoring Exchange Rate Trends

Use a business periodical or the Internet to determine how the value of the foreign currency of concern has changed in each of the last five weeks. Does it appear that there is a trend over the last five weeks? What is the mean percent-age change over these weeks? If you believed that the currency's value would continue following the recent trend, would it appreciate or depreciate in the near future?

Chapter 10 Running Your Own MNC

Recognizing Exposure to Exchange Rate Risk

Recall that when you created your business idea, it was assumed that your receivables would be denominated in the foreign currency of concern upon the sale of your products.

1. Describe your exposure to exchange rate risk. That is, describe the exchange rate conditions affecting the performance of your business.
2. Is your business subject to transaction exposure? economic exposure? translation exposure? Explain why your business is or is not subject to each of these types of exposure.

Chapter 11 Running Your Own MNC

Hedging with Forward Contracts

1. Given your exposure to exchange rate risk, explain how you could use forward contracts to hedge.
2. Explain how you could use currency options to hedge your exposure.
3. Review the currency options quotations for the foreign currency of concern in *The Wall Street Journal*, or from an Internet source, and determine the premium that would be paid to be able to sell the currency at today's spot rate. (If the currency option data are not available for the currency of concern, skip this question.)

Using Futures Quotes

Go to http://www.cme.com. Determine the prevailing futures price of the main foreign currency for your business. Go to http://www.oanda.com and determine the prevailing spot rate. Would you hedge any transactions for your business based on the futures price relative to the spot rate.

Chapter 12 Running Your Own MNC

Denominating Receivables in U.S. Dollars

Recall that it was assumed that your receivables would be denominated in the foreign currency of concern. For this question only, assume that you could switch your pricing policy so that the receivables would be denominated in dollars instead of the foreign currency. How would this switch affect the transaction exposure and the economic exposure of your business? Explain the conditions that could still cause the performance of your business to be affected by exchange rate movements.

PART IV – LONG-TERM ASSET AND LIABILITY MANAGEMENT

Chapter 13 Running Your Own MNC

Establishing a Subsidiary in Foreign Country

1. Assuming that your international business is successful, identify reasons why it may be feasible to establish a small subsidiary in the foreign country rather than continue exporting.
2. Identify the disadvantages associated with establishing a small subsidiary in the foreign country of concern.

Chapter 14 Running Your Own MNC

Deriving a Required Rate of Return for an International Project

Consider a possible project that would result in expansion of your international business. Describe how you would derive a required rate of return for this project.

Chapter 15 Running Your Own MNC

Assessing Exposure to Country Risk

1. Describe the financial factors that expose your business to country risk.
2. Describe the political factors that expose your business to country risk.

PART V – SHORT-TERM ASSET AND LIABILITY MANAGEMENT

Chapter 16 Running Your Own MNC

Long-Term Debt-Denomination Decision

1. If you planned to borrow long-term funds, you could borrow dollars or you could borrow the foreign currency of concern. Using the Internet or other sources of data, compare the U.S. interest rate to the foreign interest rate over the last 8 quarters. Which interest rate is typically higher?
2. Explain why you might be able to reduce your exposure to exchange rate risk by borrowing long-term funds denominated in the foreign currency of concern.

Accessing Long-Term Interest Rates

Go to http://www.bloomberg.com and review the yields (rates) of foreign currencies. The long-term interest rates shown here reflect the government cost of borrowing, so an MNC would have to pay a slightly higher interest rate than the rate shown. What is the government's borrowing rate in your target country? Is the rate higher or lower than the government rate in the U.S.? What rate do you think you would have to pay if you borrowed funds in your target country?

Chapter 17 Running Your Own MNC

Ensuring Payment for Exports

Explain how your business could ensure payment for the products that you are exporting to a foreign country.

Chapter 18 Running Your Own MNC

Financing in Foreign Currency

1. Given that your business has receivables in a foreign currency, you may want to consider financing in that same foreign currency to offset the exposure. Compare the recent interest rate of the foreign currency of concern to the U.S. interest rate: Is the foreign interest rate typically higher or lower than the U.S. interest rate? Would you use financing in that currency to offset receivables? Explain.
2. Explain how you could use foreign financing for your business in a manner that would reduce your exposure to exchange rate risk. Be specific.

Chapter 19 Running Your Own MNC

Managing Cash

Given that you receive periodic payments in foreign currency for your exports, explain how you could effectively use cash management. That is, explain how you would use the funds as they are received. If you had some existing short-term debt, would you prefer to invest the cash in short-term securities or would you pay off the debt?