

# Chapter 19

## Multinational Financial Management

### LEARNING OBJECTIVES

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After reading this chapter, students should be able to:

- Define the term “multinational corporation” and identify 6 primary reasons why firms go international.
- Briefly explain what the EMU is, who is in it and who is not, why it is considered to be so important, and what is its common currency.
- List six major factors that distinguish financial management in firms operating entirely within a single country from those that operate in several different countries.
- Distinguish between direct and indirect quotations, and calculate exchange rates between any two or three countries.
- Briefly explain the following terms: fixed exchange rate system, floating rate system, trade deficit, pegged exchange rate, devaluations, revaluations, and convertible currency.
- Differentiate between spot and forward rates, and explain what it means for a forward currency to sell at a discount or premium.
- Briefly explain the concepts of interest rate and purchasing power parity.
- Explain the implications of relative inflation rates, or rates of inflation in foreign countries compared with that in the home country on multinational financial decisions.
- Distinguish between foreign portfolio investments and direct investments, and briefly explain the following terms: Eurodollar, Eurocurrencies, LIBOR, foreign bonds, and Eurobonds.
- Identify some key differences in capital budgeting as applied to foreign versus domestic operations including the following terms: repatriation of earnings, exchange rate risk, and political risk.
- Explain whether international differences in financial leverage exist.
- List some factors that make working capital management especially complicated in a multinational corporation.