

National Research University - Higher School of Economics

Faculty of World Economy and International Affairs

Course Syllabus and Description

INTERNATIONAL CORPORATE FINANCE

Master of International Business Program

38.04.02 Management

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INTERNATIONAL CORPORATE FINANCE

COURSE DESCRIPTION

Pre-requisites:

Introduction to Financial and Managerial Accounting (Master level, not less than 6 credit units, or 56 class hours)

International Relations

World Economy

Foundations of Managerial Economics

International Business Research

Course type: elective

Abstract: This course is a corporate finance course of basic level. The aim of the course is to provide the student with sufficient knowledge to understand the logic of the modern financial analysis of strategic corporate decisions and it focuses mainly on financial decision-making process in corporations including investing, financing, payout policies. The course covers basic finance topics such as principles of equity and debt valuation, cost of capital, capital structure.

The course covers such topics as debt and equity valuation; estimating the risk and the cost of capital; modelling the cash flows; optimization of capital structure; payout policy; and investment decisions.

LEARNING OBJECTIVES AND OUTCOMES

After the course student will know:

- main features of multinational companies and explain why we should pay attention to international character of the company;
- core corporate finance concepts and theories;
- the logic and the mechanism of raising the capital by large companies;
- the logic and the mechanisms of payout policy of large corporations.

After the course student will be able to:

- Apply key corporate finance concepts to multinational companies;
- Estimate the cost of capital of a public corporation;
- Evaluate the efficiency of an investment project;

- Describe the process of decision-making in multinational companies and analyze agency problems inside;
- Apply classical models while making equity valuation.

COURSE PLAN

Topic 1. Introduction to Corporate Finance.

What is modern financial analytical framework and how does finance contribute to corporate decision-making? Financial dimensions of the firm thru its life cycle: liquidity, risk and fundamental value. Financial dimensions of the firm: annual measures. Investment risk and hurdle rates. The types of cash flows in accounting model: cash flow from operating activity, from investing activity, from financing activity, the net cash flow. Free cash flow of the firm.

Financial model of analytical framework versus accounting model of corporate decisions' analysis. The role of CFO in the firm.

Topic 2. Measuring the Value. Debt Valuation.

Intrinsic value. Key Value drivers. Corporate valuation framework: discounted cash flows. Free cash flows. Terminal cash flow.

Present value of bond's cash flows. Valuation of fixed income security. Measuring yield-to-maturity (YTM). Types of corporate debt financing instruments and measurement of their values.

Practical tasks on debt valuation.

Topic 3. Risk and Return. Capital Asset Pricing Model.

Types of risks. Systematic and specific risk. The principles of capital asset pricing theory (CAPM): how to measure expected return and required return on capital. The risk-free rate. How to measure the systematic risk of a firm: beta coefficient. Premium for risk. Country risk premium. Application of CAPM to real data.

Topic 4. Equity Valuation.

How does equity valuation differ from bond's valuation? Discounted dividends model (DDM): the cases for permanent and stable growing dividends. Free cash flow to firm. Free cash flow to equity.

Practical tasks on debt valuation.

Topic 5. Capital Structure and Overall Cost of Capital.

What is capital structure of a firm and how it differs from financing structure of the firm. The cost of debt. The cost of equity. The weighted average cost of capital. The optimal capital structure of a firm. The weighted average cost of capital for the international firms.

Topic 6. Investment Decisions

How to evaluate the efficiency of investment project? Cash flows of an investment project. Net present value concept. NPV Decision rule. Limitations of NPV. Adjusted

present value. Internal Rate of Return. Discounted Payback method. Profitability Index as a complement to NPV.

Topic 7. Payout Policy

Payout policy irrelevance. Dividend and Capital Gains Tax Rates. Market imperfections and dividend payouts. Cash dividend payout vs. stock repurchase. Clientele hypothesis. Signaling with payout policy.

READING LIST

Reading material consists of key books (1-3), optional books (4) and articles from top finance journals (the list will be provided).

1. Berk, DeMarzo, Harford. Fundamentals of Corporate Finance. Global Edition. 2nd Edition. Pearson Education Limited, 2012.
2. Aswath Damodaran. Investment Valuation: Tools and Techniques for Determining the Value of Any Asset (Wiley Finance)
3. Butler K. Multinational Finance. Wiley-Blackwell; 4 edition (January 22, 2008).

Reading material consists of 3 key books and a number of articles from top finance journals (the list will be provided at the first class).

GRADING SYSTEM AND GUIDELINES FOR KNOWLEDGE ASSESSMENT

Your grade will be based on class work & home assignments (60%) and final exam in form of a case study (40%). You should work together in teams of 4-5 on the case studies, and should hand in a joint solution with all of your names on it.

METHODS OF INSTRUCTION

The following methods and forms of study are used in the course:

- Lectures (2 hours a week on average)
- Classes (2 hours a week on average, in-class case studies, problem solving, individual work, work in small teams, presentations, discussion)
- Home reading (mostly supplementary)
- Self-study
- Exam case study

SPECIAL EQUIPMENT AND SOFTWARE SUPPORT

Laptop, projector