Syllabus
Corporate finance

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Class teachers: Ella Khromova, Anton Fokin

Course description and objectives

The Corporate finance course is an intermediary one-module course for four-year undergraduate students. It is focusing on corporate applications in the international environment. The course develops theoretical and practical frameworks for understanding and analyzing major financial problems of modern firm in the market environment. The course is taught in English. Russian is used as supplementary language to explain basic concepts and introduce some Russian terminology.

The course is focused on developing skills in analyzing corporate behavior in capital markets and the relationship of agent, and principal of raising funds, allocating capital and distributing returns. The course provides necessary knowledge in evaluating different management decisions and their influence on corporate performance and value.

The first part of the course is devoted to principles of accounting. By the end of this part of a course, students are expected to be able to apply a set of accounting concepts to read annual financial report of a corporation and financial ratios to assess its financial position. The second part deals with principles of company valuation and covers the essentials of capital structure and methods of company valuation. It is focused on estimating and forecasting cash flow of a firm in order to calculate its market value.

Course prerequisites

The course International finance and globalization is the main prerequisite for the course. It is an obligatory course for 3d year students of International Economics and Business specialization of the IR Program. Students must be familiar with some basic financial concepts like bonds, stocks, derivatives, NPV, IRR, discount rates.

Also the course's analytical framework uses a few basic economic principles up to the level of Economic Theory and Calculus that are obligatory courses during the 1st year of the IR Program. The basic principles are a transactions cost, asymmetric information, profit maximization, basic supply and demand analysis to explain behavior in financial markets, and aggregate supply and demand analysis.

Grade determination

Course grade is determined by:
- Home assignments (15%)
- Class-work during lectures and classes (15%)
- Group project (40%)
- Final written exam (30%)

Literature

Main reading
1. Danny Leiwy and Robert Perks. Accounting: Understanding and Practice. 4th edition. McGraw-Hill Higher Education. 2013.
2. Grinblatt, Titman. Financial Markets and Corporate Strategy. McGraw Hill. 2nd edition 2001.
3. Brealey, R.A., Myers S.C. Principles of Corporate Finance. McGraw-Hill/Irwin, 2003.

Supplementary reading
1. Ross S., R.Westerfield, J.Jaffe. Corporate Finance. Fifth Edition. IRWIN-McGraw-Hill.
2. Copeland T. and Weston J.: Financial Theory and Corporate Policy. 1998
3. Damodaran A. Applied Corporate Finance. Wiley&Sons. 1999
4. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Financial accounting. 2 edition. Prentice Hall.

Course outline

<u>Part I. Accounting</u>

Basic Accounting Equation and Balance Sheet
Basic accounting equation. Types of assets: current and fixed, liquid and illiquid, tangible and intangible. Liabilities and their recognition criteria. Types of liabilities. Owner's capital (equity, retained earnings) and its forms.

Profit and Loss statement
Main sections of Income Statement. Concepts of Revenue, COGS, OPEX, EBITDA, D&A, EBIT, Tax, Net Income. Revenue recognition criteria: Accrual vs Cash basis.

Cash Flow Statement and the link between 3 statements
Types of company's activities and cash flows: cash flow from operating, investing and financing activities. Net (gross) cash flow. The reconciliation of Net Income to Cash Flows. The link between 3 statements.

<u>Part II. Company Valuation</u>

Company Valuation Approaches
Why do you need valuation? Market Capitalization vs Enterprise Value. Market Value vs Book Value. Relative valuation (multiples) vs fundamental valuation (Discounted Cash Flows). Multiples: transaction vs trading; Market Cap based vs EV based, etc.

DCF Model: Cash Flows
The concept of DCF model. Terminal Value. Calculating and forecasting different types of Cash Flows (FCFF, FCFE). Reconciliation of Net income to Cash Flows.

Capital Structure Choice
Basic features of Debt and Equity. The effect of taxes on capital structure. The debt tax shield. Cost of financial distress. Corporate Cost of Capital and Financial Leverage.

DCF Model: Discount rate
Interest rates and the time value of money. The weighted average cost of capital (WACC) and its components. Return on equity: CAPM, beta unlevered and beta levered from peers or from the market. Return on debt. The financing decision including capital structure theory and the cost of capital.

Distribution of hours

#	Topic	Total	Lectures	Classes	Self-study
1	Basic Accounting Equation and Balance Sheet	8	2	2	4
2	Profit and Loss statement	10	2	2	6
3	Cash Flow Statement and the link between 3 statements	16	2	2	12
4	Company Valuation Approaches	8	2	2	4
5	DCF Model: Cash Flows	10	2	2	6
6	Capital Structure Choice	12	2	2	8
7	DCF Model: Discount rate	24	2	2	20
	Total	**88**	**14**	**14**	**60**