Syllabus

1. Course Description
    a. Title of a Course: **CORPORATE FINANCE**
    b. Pre-requisites: The course requires the knowledge in micro and macroeconomics, accounting, banking and financial markets, quantitative finance (time value of money).
    c. Course Type: Compulsory
    d. Abstract: The course develops theoretical framework for understanding and analyzing major financial problems of modern firm in the market environment. The course covers basic models of corporate capital valuation, including pricing models for primary financial assets, real assets valuation and investment projects analysis, capital structure. The course is focused on developing skills in analyzing corporate behavior in capital markets and the relationship of agent and principal in raising funds, allocating capital, distributing returns. It provides necessary knowledge in evaluating different management decisions and their influence on corporate performance and value.

2. Learning Objectives

The main objective of the course is to provide the conceptual background for corporate financial analysis from the point of corporate value creation. The course aims to develop an understanding of the theoretical foundations and practical aspects of the decisions made by the financial managers of a corporation.

3. Learning Outcomes

While each topic comes with its own learning outcomes, we list the most important ones here. After completing this module students should be able to:

- Define the role and responsibilities of a firm's financial manager.
- Explain how firms interact with the financial markets.
- Know how to calculate all of the measures used to evaluate capital projects and the decision rules associated with them. Evaluate and rank alternative investment projects.
- Understand weighted average cost of capital and be able to calculate the costs of common equity, preferred stock, and the after-tax cost of debt.
- Define and calculate various measures of leverage and the firm characteristics that affect the levels of operating and financial leverage. Calculate the breakeven quantity of sales is that quantity of sales for which total revenue just covers total costs.
- Estimate a firm's cost of capital in relation to risk and leverage.

- Explain the factors that affect a firm's choice of capital structure.
- Explain the factors that affect a firm's choice of payout policy. Know the terminology and mechanics of dividend payments. Calculate the EPS and book value of a firm after a share repurchase, given the relevant information about the firm and the source of the funds.
- Assess the value of a firm's stock based on fundamental information.
- Assess the sensitivity of project value to changes in parameters.
- Analyze the trade-off between current earnings and future growth prospects.
- Understand and apply the approaches to the management of current assets and liabilities, including short-term bank financing, and the receivables aging schedule.
- Evaluate a firm's short-term investment policies and short-term funding strategy. Understand why the management of inventory, receivables, and payables is important to a firm's overall profitability and value.
- Understand the specific issues that are covered under the heading of "corporate governance" and which practices are considered good. You should know the characteristics of an independent and effective board of directors. Much of the rest of the material has to do with shareholder interests and whether a firm's actions and procedures promote the interests of shareholders.
- Describe the sources of value creation in mergers and acquisitions. Assess the gains or losses to both acquiring and target firm in a merger.

4. Course Plan

	Topic	**Lectures**	**Seminars**
1	Introduction to Corporate Finance	2	2
2	Corporate Performance, Governance and Business Ethics	2	2
3	Capital Budgeting	2	2
4	Cost of Capital	2	2
5	Measures of Leverage	2	2
6	Capital Structure	2	2
7	Dividends and Share Repurchases	2	2
8	Working Capital Management	2	2
9	Stock valuation	4	4
10	Mergers and Acquisitions	2	2
	Total contact ac. hours	22	22

1) Introduction to corporate finance. Corporation as a form of business. The purpose of corporate management.

Types of firms. The advantages of corporate firm over the sole traders and partnerships. The value creation and building blocks in corporate finance. The life-cycle of the corporation at the capital market: funds raising, investing and benchmarks, returning money to investors at the capital market. The role of capital market in explaining corporate performance. Corporate investment and financing decisions. The mission of Chief Financial Officer of the Corporation (CFO). The functions of corporate financial manager. Owners versus control of corporations. Principal – agent relationships. Ethical implications of strategic decisions.

2) Corporate Performance, Governance and Business Ethics

Goals and governance of the firm. Agency problems and corporate governance. Interests of key stakeholder groups and the purpose of a stakeholder impact analysis. Conflicts that arise in agency relationships, including manager–shareholder conflicts and director–shareholder conflicts. Problems that can arise in principal-agent relationships and mechanisms that may mitigate such problems. Roots of unethical behavior and how managers might ensure that ethical issues are considered in business decision making. Objectives and core attributes of an effective corporate governance system. How to evaluate whether a company's corporate governance has those attributes. Effective corporate governance practice as it relates to the board of directors. Responsibilities of the board of directors, qualifications and core competencies that an investment analyst should look for in the board of directors. Elements of a company's statement of corporate governance policies that investment analysts should assess. Environmental, social, and governance risk exposures. The valuation implications of corporate governance.

3) Capital Budgeting

The capital budgeting process and the various categories of capital projects. The basic principles of capital budgeting. The yearly cash flows of expansion and replacement capital projects and how the choice of depreciation method affects those cash flows. How inflation and depreciation affect capital budgeting analysis. Calculating and interpreting net present value (NPV), internal rate of return (IRR), payback period, discounted payback period, and profitability index (PI) of a single capital project. The NPV profile, comparison of the NPV and IRR methods when evaluating independent and mutually exclusive projects, and the problems associated with each of the evaluation methods. The expected relations among an investment's NPY, company value, and share price. How the evaluation and selection of capital projects is affected by mutually exclusive projects, project sequencing, and capital rationing. How sensitivity analysis, scenario analysis, and Monte Carlo simulation can be used to assess the stand-alone risk of a capital project. The discount rate, based on market risk methods, to use in valuing a capital project. Types of real options, evaluation of a capital project using real options. Common capital budgeting pitfalls. Accounting income and economic income in the context of capital budgeting.

4) Cost of Capital

The weighted average cost of capital (WACC) of a company. How taxes affect the cost of capital from different capital sources. Target capital structure in estimating WACC. Target capital structure weights. The marginal cost of capital , and the investment opportunity schedule to determine the optimal capital budget. Calculating the cost of debt capital using the yield-to-maturity approach and the debt-rating approach. Calculating the cost of noncallable, nonconvertible preferred stock. Calculating the cost of equity capital using the capital asset pricing model approach (CAPM), the dividend discount model approach, and the bond-yield plus risk-premium approach. The beta and cost of capital for a project. Country risk premiums in estimating the cost of equity.

5) Measures of Leverage

The concepts of leverage, business risk, sales risk, operating risk, and financial risk. Risk classification. The degree of operating leverage, the degree of financial leverage, and the degree of total leverage.

The effect of financial leverage on a company's net income and return on equity. The breakeven quantity of sales, determining the company's net income at various sales levels. The operating breakeven quantity of sales.

6) Capital Structure

The Modigliani–Miller propositions regarding capital structure, including the effects of leverage, taxes, financial distress, agency costs, and asymmetric information on a company's cost of equity, cost of capital, and optimal capital structure. The target capital structure. The role of debt ratings in capital structure policy. Key factors an analyst should consider in evaluating the effect of capital structure policy on valuation. International differences in the use of financial leverage, factors that explain these differences, and implications of these differences for investment analysis.

7) Dividends and Share Repurchases

Theories of dividend policy, implications of each for share value given a description of a corporate dividend action. Types of dividends: regular cash dividends, extra dividends, liquidating dividends, stock dividends. Stock splits and reverse stock splits, their expected effect on shareholders' wealth and a company's financial ratios. Dividend payment chronology (declaration, holder-of-record, ex-dividend, and payment dates). Types of information (signals) that dividend initiations, increases, decreases, and omissions may convey. Stable dividend, constant dividend payout ratio, and residual dividend payout policies. Factors that affect dividend policy. How clientele effects and agency issues may affect a company's payout policy. Share repurchase methods. The effect of a share repurchase on earnings per share when 1) the repurchase is financed with the company's excess cash and 2) the company uses debt to finance the repurchase. The effect of a share repurchase on book value per share. Dividend coverage ratios based on 1) net income and 2) free cash flow. Characteristics of companies that may not be able to sustain their cash dividend.

8) Working Capital Management

Primary and secondary sources of liquidity and factors that influence a company's liquidity position. A company's liquidity measures. Evaluating working capital effectiveness of a company based on its operating and cash conversion cycles. How different types of cash flows affect a company's net daily cash position. Comparable yields on various securities, portfolio returns against a standard benchmark, evaluating a company's short-term investment policy guidelines. Evaluating a company's management of accounts receivable, inventory, and accounts payable over time and compared to peer companies. Evaluating the choices of short-term funding available to a company.

9) Stock valuation

The foundations of value for a firm's stock. Methods of calculating the fundamental value of a share of stock. The trade-off between current earnings power and future growth prospects. The Dividend discount model. Gordon constant growth dividend rate model. Multistage DDM. Growth opportunities value. Free cash flows valuation models. The limitations of DCF valuation. Valuation based on comparable firms.

10) Mergers and Acquisitions

Classification of merger and acquisition (M&A) activities based on forms of integration and relatedness of business activities. Common motivations behind M&A activity. The relation between merger motivations and types of mergers. Merger transaction characteristics by form of acquisition, method of payment, and attitude of target management. Pre-offer and post-offer takeover defense mechanisms. Calculating and interpreting the Herfindahl–Hirschman Index, and evaluating the likelihood of an antitrust challenge for a given business combination. The discounted cash flow, comparable company, and comparable transaction analyses for valuing a target company, the advantages and disadvantages of each. Evaluation of a takeover bid. Estimating post-acquisition value of an acquirer and the gains accrued to the target shareholders versus the acquirer shareholders. How price and payment method affect the distribution of risks and benefits in M&A transactions. Characteristics of M&A transactions that create value.

5. Reading List

a. Required:

- Jonathan Berk. Corporate Finance. Pearson Education. 2014.
- Brealey R. A. Principles of corporate finance. McGraw-Hill/Irwin. 2011 (and later editions).

b. Optional:

- Aswath Damodaran. Corporate Finance: Theory and Practice. John Wiley & Sons. 1997 (and later editions).
- Damodaran A. Applied corporate finance. John Wiley & Sons. John Wiley & Sons. 2011.
- Simon Z. Benninga. Corporate Finance – A Valuation Approach. McGraw – Hill. 1997.
- Jonathan Reuvid. The Corporate Finance Handbook, Third Edition. Kogan Page. 2002. (ebook)
- Damodaran Online. http://pages.stern.nyu.edu/~adamodar/.

6. Grading system

Students' performance is evaluated on a 10-point mark scale as follows:

Points	Description
10	Distinguished performance
8-9	Excellent performance
6-7	Good performance
4-5	Satisfactory performance
0-3	Fail

The rounding of the definitive performance grade is conducted in accordance with the standard mathematical rounding rules. The rounding of the intermediate grades is not conducted to avoid the rounding bias.

7. Guidelines for Knowledge Assessment

- Follow the instructions to each lesson: get an idea of what the lesson is all about, and where to find further information.
- Read the assigned chapter(s) in the main textbook: identify and internalize the core concepts and ideas addressed in the lesson.
- Read the lesson notes: reinforce and check your knowledge of the key ideas.
- Practice solving the problems provided in class and discussed in the textbook.

- Then read the supplementary materials. These materials are not tested but you are recommended to read them as they aim to deepen your understanding of the lesson.

The final grade will be based on:

1. Attendance and participation in class discussions (20 percent)
2. Individual presentations and home assignments (20 percent)

Final exam (60 percent)

8. Methods of instruction

The instructors use traditional methods of instruction by providing well-structured reading during contact hours with a lot of illustrations, problems and real case studies and discussing the materials.

9. Special Equipment and Software Support

- Thomson Reuters Eikon
- Excel (modeling, calculations, visualization)