



COURSE DESCRIPTOR

SUBJECT TITLE	MA460 Corporate Finance
SUBJECT INSTRUCTOR (S)	Dr Olga Kandinskaia
NO. OF ECTS CREDITS	6
CLASS CONTACT HOURS	28
MINIMUM LEARNING EFFORT (in hours)	112
PREREQUISITES	None

OBJECTIVES

- The main objective of this course is to introduce the fundamental concepts of the theory and practice of finance, and to develop an understanding of the financial side of the business: how to make intelligent and ethical value-creating decisions. The first part of the course focuses on corporate finance issues. These can be divided into two areas: (1) which projects to pursue (i.e. capital budgeting decisions) and (2) how to finance the projects (i.e. capital structure decisions). In the second part of the course, we will examine the interaction of corporate finance with the capital markets. In this section the aim is to provide you with the knowledge and tools to understand how assets are valued, and how risk and return interact and affect the manager's decisions.
- The topic of making long-term investment decisions will be given special attention: participants will be introduced to such methods as NPV and IRR, and will be taught how to use financial functions of Microsoft Excel to cut easily through financial formulas when applying capital budgeting techniques.
- We will also give considerable attention to the topic of bond and stock valuation, which is very useful to managers because it enhances their understanding of the market economy mechanism, and it develops their ability to apply the value creation theory of Finance in practice. When a manager understands what drives the market value of his/her business, he/she is able to make better decisions to increase the shareholders'/owners' wealth. This topic is important in understanding a company's growth, and it is also closely related to risk assessment issues and risk management which are becoming essential considerations in the modern decision making process.

LEARNING OUTCOMES

The students at the end of the course will be able to:

- gain a broad overview and a comprehensive understanding of the world financial environment, adequately define financial terms, and effectively communicate business and financial information using professional language

- conceptually understand the main theories of Corporate Finance (such as Time Value of Money, Annuities & Perpetuities, Discounted Cash Flow Valuation), master their mathematical interpretation as well as the use of Microsoft Excel financial functions, and have a commitment to their practical application
- master Capital Budgeting techniques (NPV, Payback, Discounted Payback, IRR, PI) using Microsoft Excel, and develop awareness of practical challenges in the long-term financial planning
- understand the advantages and disadvantages of different methods of long-term financing, know the principles of bond & stock valuation, develop the ability to recognize good company growth versus bad growth
- conceptually understand the risk dimension of financial decisions, know the basics of the Portfolio theory and the diversification principles, measure risk and interpret professionally the risk measurements, identify correctly the cost of capital
- Become aware of ethical decision-making in Finance

COURSE OUTLINE

Introduction to Corporate Finance: Overview of Financial Management & Financial Environment.

Financial Goal. Forms of business organization. Finance Function: responsibilities of CFO, treasurer, controller, audit manager, risk manager. Ethical Issues in Finance. Capital budgeting versus financing decision. Types of financial markets and financial institutions.

Time Value of Money Concept and its Application.

Future value and the effect of compounding, present value and discounting, Discounted Cash Flow (DCF) formula, annuities and perpetuities, loan amortization schemes, using financial functions of Microsoft Excel for time-value calculations.

Capital Budgeting Process.

Methods of ranking investment proposals, Payback and Discounted Payback, Net Present Value (NPV), Internal Rate of Return (IRR), Profitability Index (PI), practical considerations in capital budgeting.

Valuation of Bonds and Common Stocks.

Types of bonds, bond ratings, relationship between bond prices and interest rates, advantages for companies of raising money through bonds, types of stocks/equity, methods to identify if stocks are undervalued or overvalued, dividend versus growth stocks, the effect of capital budgeting projects on a firm's stock price, bad growth versus good growth for a company.

Cost of Capital. Risk and Return. Portfolio Theory. CAPM.

Understanding risk-return relationship and sources of risk. Measuring risk in Finance. Diversification. Beta as the measure of market risk. Calculating expected returns using the Capital Asset Pricing Model. Calculating cost of capital.

Case Study Presentations & Credit Experiment.

Practical application of concepts learned in the course - through team work in 1) a comprehensive case study, 2) a bond trading simulation game.

TEACHING AND LEARNING METHODS

Teaching and learning methods for this course will include:

- Face-to-face lectures delivered through PowerPoint Presentations
- In-class short assignments (focused on problem solving)
- In-class debates and discussion (focused on examples, problems and short case studies)
- Case study presentations by students' teams
- In-class simulation game
- E-learning methods (via Moodle), such as
 - online teaching materials (presentations, videos, online articles)
 - online forum discussions
 - online quizzes and assignments (pre-reading and revision for exam)

The e-learning element of the course serves the purposes of:

1. Promoting active, self-directed learning by providing you with an effective combination of in-class teaching and online learning
2. Using the lecture hours more efficiently to focus on the material that is more effectively presented in the face-to-face format
3. Providing you with more flexibility by allowing you to do some of your work from home and to complete online learning activities at times that best suit your schedule
4. Giving you additional help in revising for the final exam

METHODS OF ASSESSMENT

Assessment will be based on 20% class participation (face-to-face sessions and online via Moodle, including two online quizzes and participation in online forums), 25% in-class case study presentations and the simulation game, and 55% on an examination at the end of the course.

RECOMMENDED READING LIST

Lecture notes are available in Moodle, prior to the face-to-face sessions.

A recommended (optional) textbook for the course is:

- *Principles of Corporate Finance*, by Richard Brealey, Stewart Myers, and Franklin Allen, 9th edition, McGraw-Hill/Irwin, 2008 (available in the CIIM Library, and also from various sources online, such as <http://www.mcgraw-hill.co.uk/html/0071314261.html>).

This is the most widely used and recognized book for Corporate Finance courses. It contains a good discussion of all the topics that we will be covering in the course, with numerous examples, illustrations, quizzes, and end-of-chapter problems and questions. The book's website (<http://www.mhhe.com/brealey/>) includes extra problems, questions, quizzes, and PowerPoint presentations for the interested students.

You will also receive a course package at the beginning of the course in class that will include Practice Questions, the required cases and optional extra readings.

Furthermore, a laptop is required since we are going to use Excel spreadsheets for financial calculations.

Recommended online sources:

- Financial Times (<http://www.ft.com/home/europe>), one of the most reputable sources of financial news delivered both as traditional articles and as videos (requires subscription)
- Bloomberg (<http://www.bloomberg.com/>), which also has excellent iPhone and iPad applications (if you have an iPhone or an iPad, please install them, it will be helpful in class)
- Yahoo!Finance (<http://finance.yahoo.com/>), which provides a great Stock Research Center (<http://biz.yahoo.com/r/>)
- CNN Money (<http://money.cnn.com/>), particularly if you prefer financial news in the video format (<http://money.cnn.com/video/>)

The local weekly *Financial Mirror* newspaper (published every Wednesday) is also a good choice. You can read it in print or online: <http://www.financialmirror.com/>.

Finally, an excellent web resource for financial terms and definitions is Investopedia Dictionary (<http://www.investopedia.com/dictionary/#axzz1d6FT1ABo>). Whenever you come across a financial term that you don't know, use this web page. It gives short, clear, relevant definitions, providing examples and useful links.