

Corporate Finance II**2015/2016**

Code: 102328

ECTS Credits: 6

Degree	Type	Year	Semester
2501572 Business Administration and Management	OB	3	2
2501573 Economics	OT	4	0

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Use of languages

Principal working language: catalan (cat)

Prerequisites

i) Standard requirements for the third course of the undergraduate degree and ii) having followed the subject *Finance I*. iii) Students registered in *Finance II* are also expected to have the skills assigned to previous courses.

Objectives and Contextualisation

The course Finance II is aimed at providing basic knowledge necessary for capital budgeting decision making process. Departing from the concepts and the form of reasoning learned in Finance I, this course analyzes and studies some decisions that financial manager has to make on regular basis. All companies are faced with new investment projects which they have to analyze from both, economic and financial perspective. In this course the principal existent techniques will be studied, their application, interpretation and adaption to real world. In addition, as there is no investment without financing, the characteristics of the principal source of financing available to companies will be studied, differentiating between small and big companies.

The principal concept of the course is the corporate value creation in the real economy through the selection of new investments that are most suited to the corporate strategy. The interaction investment-financing is very important for the company in order to be able to reach its return objectives, without overlooking the cost of capital, always established depending on risk. The important role of risk in finance, which has been already studied in Finance I, continues to be present in deciding the feasibility of new investments in economic and financial sense. In order to create value it is necessary to engage in investment projects capable to create value which depends on the return of the investment and the cost of capital or cost of financing.

Skills**Business Administration and Management**

- Apply the basic statistics for improving capacity for work in situations of risk, understanding their origins and developing possible strategies for reducing or mitigating their effects.
- Apply theoretical knowledge of finances to improve relations with sources of financing, identifying the different forms of financing and the advantages and disadvantages for the company and the providers.
- Capacity for adapting to changing environments.
- Capacity for independent learning in the future, gaining more profound knowledge of previous areas or learning new topics.
- Capacity for oral and written communication in Catalan, Spanish and English, which enables synthesis and oral and written presentation of the work carried out.
- Demonstrate initiative and work individually when the situation requires it

- Manage conflicts of interest and in particular conflicts involving proposals for the fair distribution of value generated.
- Organise the work in terms of good time management, organisation and planning.
- Select and generate the information necessary for each problem, analyse it and take decisions based on that information.
- Take decisions in situations of uncertainty, demonstrating an entrepreneurial and innovative attitude.
- Value ethical commitment in professional practice.
- Work well in a team, being able to argue proposals and validate or reject the arguments of others in a reasoned manner.

Learning outcomes

1. A capacity of oral and written communication in Catalan, Spanish and English, which allows them to summarise and present the work conducted both orally and in writing.
2. Apply the main principles of risk management.
3. Apply the methodology of financial economy reasoning and differentiate it from its equivalent in real economy.
4. Assess ethical commitment in professional activity.
5. Assess investment opportunities from a strategic perspective.
6. Capacity to adapt to changing environments.
7. Capacity to continue future learning independently, acquiring further knowledge and exploring new areas of knowledge.
8. Demonstrate initiative and work independently when required.
9. Formulate indebtedness and dividend policies.
10. Make decisions in situations of uncertainty and show an enterprising and innovative spirit.
11. Organise work, in terms of good time management and organisation and planning.
12. Select and generate the information needed for each problem, analyse it and make decisions based on this information.
13. Understand the formation of value from the perspective of shareholders.
14. Work as part of a team and be able to argue own proposals and validate or refuse the arguments of others in a reasonable manner.

Content

1 Investment projects, financing projects and aggregated projects: Models

- 1.1 The corporate financial dynamics: earnings versus cash flows
- 1.2 Structuring of investment projects
- 1.3 Structuring of financing projects
- 1.4 Structuring of aggregated projects.

2 Capital budgeting techniques for new investment projects: application and decision criteria

- 2.1 The Net Present Value (NPV)
- 2.2 Internal Rate of Return (IRR) versus maximum cost of capital
- 2.3 Net Final Value (NFV)
- 2.4 Complementary criteria: profitability index, discounted pay-back, equivalent annual annuity
- 2.5 Other aspects to consider: anomalies in capital budgeting
- 2.6 Effect of inflation

3 Risk and uncertainty in capital budgeting

- 3.1 Risk, uncertainty, forecasts and goals
- 3.2 Expected value, certainty equivalent and risk premium in capital budgeting
- 3.3 Estimating the required rate of return through the Security Market Line
- 3.4 Introduction to sensitivity analysis

4 Capital budgeting and strategy

- 4.1 Market value as the core of capital budgeting
- 4.2 Competitive advantage and project analysis
- 4.3 The corporation as a portfolio of real projects
- 4.4 Socially responsible capital budgeting: Environmental sustainability, social sustainability and financial sustainability

5 Real options

- 5.1 Option analysis in real economics: Capturing and analysing opportunities
- 5.2 The option to expand
- 5.3 The option to abandon
- 5.4 Introduction to real option valuation

6 Financing sources

- 6.1 Debt versus equity
- 6.2 Issuing new shares
- 6.3 Internal financing
- 6.4 The cost of capital

7 Introduction to financial structure and dividend policy

- 7.1 Debt level. Effects on corporation and shareholders
- 7.2 The importance of dividend policy
- 7.3 Financial policy and value creation

Methodology

50% of credits are theoretical and 50% practical. Theory will be taught through lectures. Lecturers will present the topics explaining the basic information necessary for better understanding of the concepts. Lecturers will encourage students' participation through questions and comments that involve reasoning when faced different situations and scenarios. The practical part will consist of problem solving, at home and in the classroom. Students are expected to participate actively in solving exercises and cases formulated in the classroom or directly requested by professor. Whenever possible, students will be encouraged to get familiarized with information about different financial markets published in the web.

Activities

Title	Hours	ECTS	Learning outcomes
Type: Directed			
Lectures	28	1.12	2, 3, 1, 13
Solving exercises in the classroom	17	0.68	2, 3, 1, 13, 10, 12, 4
Type: Supervised			
Tutorial	23	0.92	2, 3, 1, 7, 13, 11, 10, 12, 4
Type: Autonomous			
Findig the solution of exercises and scenarios presented	20	0.8	2, 3, 6, 1, 7, 13, 8, 11, 10, 12, 14, 4
Information search and analysis of exercises and cases	11	0.44	7, 8, 11, 12, 14
Study	45	1.8	2, 3, 6, 1, 7, 13, 8, 11, 10, 12, 14, 4

Evaluation

The evaluation of *Finance II* consists of two components:

- Continuous evaluation (40% of the grade)
- Final exam (60% of the grade)

The continuous evaluation consists of two written exams determined by the professor, which, if considered convenient, could be accompanied by additional activities. The final grade is calculated as the weighted average of the mark on the continuous evaluation (40%) and the mark on the final exam (60%)

The realization of the continuous examination activities will be realized during the timeslot assigned to the course (from 12-14) if the professor sees it fit. Also, the professor can use the timeslot assigned to the course for recover the classes used for evaluation. The exact days will be established by professor during the first days of the course.

Lecturers can also ask for additional exercises to be delivered.

The course is considered passed if the final grade of the student (by applying the 40%-60% weights) is higher than or equal to 5. Re-evaluation of the subject will consist of a retake exam and will be subject to the following rules of the Faculty of Economics and Business of the UAB

Rules of the Faculty of Economics and Business concerning "re-evaluation":

- Those student whose final grade is below 4 will have to retake the course
- Those who achieve a final grade higher than or equal to 4.0 and lower than 5 have the right to "re-evaluation". Professors decide the format of this evaluation
- The date of re-evaluation is scheduled in the examination calendar of the Faculty of Economics and Business. Re-evaluation is assessed on a "Pass/No pass" basis. The final grade for those students with "Pass" is 5.0. If the student receives a "no pass" qualification, then s/he will have to retake the course and the final grade will be equal to the grade obtained before re-evaluation

Rules of the Faculty of Economics and Business concerning "Not evaluable"

A student is receives the grade "Not evaluable" in the course Finances II when decides not to participate in the financial exam which is 60% of the final grade.

Evaluation activities

Title	Weighting	Hours	ECTS	Learning outcomes
Final exam	60%	3.5	0.14	2, 1, 10, 12, 5
First exaem of continous evaluation	15%	1	0.04	2, 3, 1, 13
Second exam of continous evaluation	25%	1.5	0.06	2, 3, 1, 13, 9, 5

Bibliography

- BREALEY, R., S.C. MYERS, F. ALLEN. *Principles of Corporate Finance*, (11th Edition). McGraw-Hill, 2013
- BIERDMAN, H. S.SMIDT. *The Capital Budgeting Decision: Economic Analysis of Investment Projects*. 9ª edició. Great Britain. Routledge
- ROSS, S.A.; R.W. WESTERFIELD , J. JAFFE. *Modern Financial Management* , (9th edition). Nova York: McGraw-Hill, 2009.
- SHILLER,R.J. *Finance and the Good Society*, Princeton University Press, 2012