

Finance II

Code: 102328
 ECTS Credits: 6

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

Contact

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Use of languages

Principal working language: catalan (cat)
 Some groups entirely in English: Yes
 Some groups entirely in Catalan: Yes
 Some groups entirely in Spanish: No

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.

1.1 Structuring of investment projects

1.2 Structuring of financing projects

1.3 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

3 Risk and uncertainty in capital budgeting

3.1 Risk, uncertainty, forecasts and goals

3.2 Expected value, risk premium and estimating the required rate of return in capital budgeting

3.3 Introduction to sensitivity analysis

4. Effect of inflation

4.1 Expected inflation and adptation rate

4.2 Investment project, financing projects and aggregated projects in nominal currency units

5 Capital budgeting and strategy

5.1 Market value as the core of capital budgeting

5.2 Competitive advantage and project analysis

5.3 Ethical investment decisions. Socially responsible capital budgeting: Environmental sustainability, social sustainability and financial sustainability

6 Real options

6.1 Introduction

6.2 Diferent real options

7 Financing sources

7.1 Debt versus equity

7.2 Issuing new shares

7.3 Internal financing

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 consists 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 three components:

- a) First exam, 20% of the grade
- b) Second exam, 30% of the grade
- b) Third exam, 50% of the grade

The continuous evaluation consists of three 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.

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 20%-30%-50% weights) is higher than or equal to 5.

Re-evaluation of the subject will consist of a retake exam an 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 stuent 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 caledar of the Faculty of Economics and Business. Re-evaluacion 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 haveto retake the course and the final grade will be equal to the grade obtained before re-evaluatio

Rules of the Daculty of Economics and Business concernint "Not evaluable"

A student is receives the grade "Not evaluable" in the course Finances II when decides not to participate in the third exam which is 50% of the final grade.

Evaluation activities

Title	Weighting	Hours	ECTS	Learning outcomes
First exam of continuous evaluation	20%	1	0.04	2, 3, 1, 13, 4
Second exam of continuous evaluation	30%	1.5	0.06	2, 3, 6, 1, 7, 13, 9, 5
Third exam of continuous evaluation	50%	3.5	0.14	2, 1, 8, 11, 10, 12, 14, 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
- DAMODARAN, A. **Applied Corporate Finance**. 4th. Edition. 2015. John Wiley & Sons. ISBN-13: 978-1118808931
- DAYANANDA, D., IRONS, R., HARRISON, S., HERBOHN, J. I P. ROWLAND. **Capital Budgeting Financial Appraisal of Investment Projects. ebook Cambridge University Press**. Online Publication. 2010. online ISBN: 978011753701
- ROSS, S.A.; R.W. WESTERFIELD, J. JAFFE. **Modern Financial Management**. (9th edition). Nova York: McGraw-Hill, 2009.
- SHAPIRO, A.C. **Capital Budgeting and Investment Analysis**. Prentice Hall. 2005. ISBN-13: 978-0130660909
- SHILLER, R.J. **Finance and the Good Society**, Princeton University Press, 2012