1- SUBJECT DESCRIPTION

The objective of this course is to provide an introduction to the fundamental principles of asset valuation, capital markets and financing decisions of firms and financial managers. Details on core topics:

1. **Investment Appraisal**. Core topics cover analyses of investment projects, the impact of risk, tax and inflation, the term structure of interest rates, and the cost of capital.

2. **Capital Markets**. Core topics include capital markets, portfolio theory, optimal portfolio allocation, sources of finance and company valuation.

3. **Financing Decisions**. Core topics cover the optimal capital structure of firms, mergers and acquisitions and gearing.

2- OBJECTIVES and SKILLS

The objective of this course is to develop a framework for corporate financial decision making, and to provide a solid grounding in the principles and practice of corporate finance. Throughout the course students will be given theories and illustrative examples of how financial managers approach practical situations, so that students can develop an insight as to why companies and management act as they do.

To enable students to perform well and to obtain the most out of the course, preparation for each session is mandatory as the material is technical. The content section lays out the topics to be covered in the sessions, followed by the required advance preparation for the sessions.

3- METHODOLOGY AND EVALUATION

This 30 session course will be held over a 10 week period – usually with a weekly double session followed by a single session. The 30th session will be the final examination.
Because of the technical nature of some of the material, it's important to keep up by working exercises. You should do the Problem Sets, the exercise (& solutions) provided in class and try the quizzes and problems at the end of each chapter in the text (discuss your solutions with the other members of your study group). It is also essential to do the preparation ahead of time.

Attendance and punctuality are mandatory – please note that you are required to email the Instructor (in advance preferably) if you are unable to attend. Punctuality is also mandatory as class will begin promptly on the hour – 2 tardies will count for 1 unexcused absence.

The range of prior knowledge within the class is wide. Those who have already had exposure to this material should be patient, particularly during the first three sections covering the basic tools of financial appraisal. There will be a number of exercises designed to help those who have not seen this before to absorb and understand the techniques.

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Weight</th>
<th>Group/ Individual</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final examination</td>
<td>40%</td>
<td>Individual</td>
<td>Session 30</td>
</tr>
<tr>
<td>4 problem sets</td>
<td>40%</td>
<td>Group (Maximum 3)</td>
<td>See reading list</td>
</tr>
<tr>
<td>Presentation</td>
<td>10%</td>
<td>Group (Maximum 2)</td>
<td>You need to inform me</td>
</tr>
<tr>
<td>Class Participation</td>
<td>10%</td>
<td>Individual–See Guideline Document on Campus Online</td>
<td></td>
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A - Final Exam – mandatory, cumulative and close book - worth 40% of the overall grade – a scientific calculator (non-graphing, non-financial) is recommended. You need to score at least 40% on the final exam to pass the overall course, even if you have already passed the course through the other course assessments. It is important that you are motivated to score a good grade on the final exam, to have a comprehensive, cumulative picture. Otherwise you will have to retake the exam in July during the Extraordinary period (see section).

B - Problem Sets - each problem set contributes 10% to overall grade – you are recommended to work in groups no larger than 2 or 3 students and hand in 1 copy of the assignment promptly at the deadline (start of session). Presentation counts!

C – Presentation – 10% of the overall grade - you can present alone or in a group of 2 on a real-life topic linked to the content covered in the class. Presentation time is a maximum of 10 minutes and you will be assessed on 4 parameters: 1) your choice of topic (relevance and linkage to class content), 2) depth of knowledge/ research done, 3) ability to engage the class & foster discussion, and 4) presentation style.

Following the presentation, there will be a short period allowed for Q&A (not necessarily included in the 10 minutes). You can choose your presentation partner and date of presenting – however you need to inform me of both in the first week of class. You will also need to submit via email your topic and what you will cover via an email (in advance of your presentation). Also please ensure that you email the presentation materials to yourself in advance (and not use a disk or a PC) to access it during your presentation – the set up time will be included in your 10 minutes, and you should ensure you make the best use of your allotted time – there will be a penalty if you go over the 10 minutes cut-off.
D - Class Participation – 10% of the overall grade - students are expected to come prepared and participate actively (and voluntarily) during lectures. In addition, I reserve the right to cold-call on students, particularly on those who have not participated in a while. Your class grade (assigned per session) will be based on attendance, punctuality, quality of participation, and class conduct – there may be a penalty if you create a disruption, talk excessively, or use electronic devices. For further details please refer to the Guideline Document on Campus Online for Class Grade. Your overall class grade is the weighted average of the combined class grades across all the sessions.

There is a University level requirement regarding mandatory attendance – which will prevail – please refer to Student Guide. In case of unexcused absences, students may potentially be required to put in additional work.

The final grade for the course will be made available within 10 business days after the examination.

Regrading policy: There are no verbal appeals of grades. You must provide a written statement as to where and why there is a problem. All regrade requests must be submitted within 4 business days of receiving the overall grade (i.e. after the final examination). As a result, the examination will be reassessed within 5 business days and the overall score may increase, remain the same, or decrease, and no subsequent appeals are accepted.

Overall students have 4 chances to pass the course:

- during the Normal Assessment period (semester in which the assessment is held),
- the Extraordinary Exam period (in July, at the end of that academic year),
- to retake the course, in the following academic year, and
- Extraordinary Exam period in July (at the end of the academic year, when the student registered for the Retake).

Guide to July Extraordinary Exams (Source: University Rules):

“The final grade of the student in the extraordinary exam period will be adjusted according to the following rules:

a. If the student has participated in the process of continuous evaluation, the extraordinary exam in July will have a weight of 40%. The final grade for the subject will take into account the grade achieved during the period of continuous evaluation (60%) and the grade achieved in the extraordinary exam (60%). In this case the overall pass mark will be 50%, and the student would need to achieve a 40% minimum on the exam.

b. If the student did not participate in the process of continuous evaluation due to special circumstances, they have the right to take an exam in the extraordinary exam period with a value of 80% of the final grade for the subject. In this case, the maximum grade that the student can achieve will be 8.0 and the necessary grade to pass the course will be 6.25 out of 10, taking into account the grade for continuous evaluation will be 0.

c. Even if the student has participated in the continuous evaluation process, the final grade could be calculated according to paragraph b) if the student requests it formally before sitting the exam.”
Guide to Retakes of the course:

If the student has not passed the course after taking the July Examination, he / she has a third opportunity to retake the course. Assessment / Methodology will be as already discussed in the syllabus.

However if the student is unable to attend the class physically, then he / she must meet me within the **first week** when classes re-commence to discuss his / her personal situation. Depending on the personal situation an alternative solution may be sought and additional work may be given. If the student fails to raise this to my attention within the first week of classes, then their assessment methodology will be as already described above.

RETAKE POLICY

- Each student has **4 chances** to pass any given course distributed in two consecutive academic years (regular period and July period).

- Students who do not comply with the 70% attendance rule will lose their 1st and 2nd chance, and go directly to the 3rd one (they will need to enrol again in this course next academic year).

- Grading for retakes will be subject to the following rules:
  - Students failing the course in the first regular period will have to do a retake in July (except those not complying with the attendance rules, which are banned from this possibility).
  - Dates and location of the July retakes will be posted in advance and will not be changed. Please take this into consideration when planning your summer.
  - The retake will consist of the Extraordinary exam held in July, which is comprehensive.
  - Retake instructions:
    - July retake: comprehensive final exam during the Extraordinary period with the weighting per the subsequent bullet.
    - Retake in the ordinary period: if previously continuous evaluation had been submitted, then: 4 class assignments (weight: 50%), presentation (10%) & final examination (40%). In this instance, the student must obtain a 50% minimum overall for the course grade and a 40% minimum in the exam. If previously continuous evaluation was not submitted, students must obtain 62.5% in the exam to pass the course.
  - The grading criteria for the retakes are the following: in case the student passes the attendance rule and submits continuous evaluation during the Ordinary period, it will take on 60% weight and the Extraordinary exam will have 40% weight. In order to pass the course the student must obtain over 40% in the Extraordinary exam, and an overall 50% minimum for the course. In case of not submitting continuous evaluation, students must obtain at least 62.5% in the Extraordinary exam to pass the course.
  - The **maximum grade** that a student may obtain in the retake will be **8 out of 10**.
4- CONTENT

SESSIONS 1, 2, 3, 4 & 5
INVESTMENT DECISIONS CRITERIA

Introduction to Corporate Finance
Investment Decisions:

- Time Value of Money
- NPV & mechanics
- Compound interest rate & inflation rate
- NPV shortcut applications
- Alternatives to NPV (IRR & Payback Period) & critiques
- Investments with different lives

SESSIONS 6, 7, 8 & 9
INTRODUCTION TO FIXED INCOME

- Introduction to Bonds
- Term Structures of Interest Rates
- Agency Default Risk & Bond Ratings
- Bond Pricing Arbitrage
- Yield to Maturity (YTM)

SESSIONS 10 & 11
CASH FLOW PROJECTIONS

- Net Working Capital
- Fixed asset valuation
  - How they are valued on the balance sheet
  - Asset depreciation
  - Salvage value
- How to compute free cash flows (FCF’s)

SESSIONS 12, 13, 14, 15, 16 & 17
PORTFOLIO THEORY & CAPM

- Mean Variance Analysis
- Mean Variance Frontier
- Capital Allocation Line
- Capital Market Line
- Capital Asset Pricing Model (CAPM)
- Systemic vs. diversifiable risk
- Arbitrage Asset Pricing Theory
- Beta Estimation
- Cost of Capital:
  - Unlevering betas
  - WACC
SESSIONS 16 & 17:

SESSIONS 18, 19, 20 & 21
COMPANY VALUATION MODELS

- Introduction to Valuation
- Absolute Valuation Techniques
- Relative Valuation Techniques
- Mixed Valuation Techniques

SESSIONS 22, 23, 24 & 25
CAPITAL STRUCTURE & LEVERAGE

- Optimal Capital Structure Decision Making
- Modigliani-Miller (MM) propositions
- Leverage
- What’s missing from the MM view?
  - Taxes
  - Cost of financial distress
- Trade-off theory

SESSIONS 26, 27, 28 & 29
MERGERS & ACQUISITIONS

- Introduction to Mergers & Acquisition
- Types
- Motives
- Do mergers create value? For whom?
- Takeover Tactics

SESSION 30
REVIEW SESSION

FINAL EXAMINATION

5- USE OF ELECTRONIC DEVICES IN CLASS

All cell phones and electronic devices must be turned off and out of sight during class (failure to comply with this rule will affect your class participation grade and may result in dismissal from the class). If you are using laptops to take notes, please do not check personal pages during the sessions (failure to do so – results in above).