Financial Management

Academic Year: (2018 / 2019) **Review date: 11/05/2018 03:10:59**

Department assigned to the subject: Business Administration Department

Coordinating teacher: TRIBO GINE, JOSE ANTONIO

Type: Compulsory ECTS Credits : 6.0

Year : 3 Semester : 2

REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)

Financial Economics

OBJECTIVES

The central aim of this subject is to present the different financial instruments that a firm may use to raise capital. Once these financial instruments are introduced, the concept of cost of capital is defined as a necessary parameter for defining a firm¿s value.

The knowledge that the student has to achieve can be divided in the following objectives:

- Compute a firm value
- Compute the cost of capital of a firm.
- Understand that a firm is a portfolio of financial instruments which is closely connected to a portfolio of investment projects.
- Distinguish a firm's cost of capital from a project cost of capital.
- Be able to value companies as well as investment projects.
- Connect the different shareholders¿ compensation mechanisms with the different financial instruments that a firm uses for raising capital.

Specific capacities:

- Understand the concept of firm value.
- Be able of using comparables as well as different ways to compute a firm value.
- Define a flexible methodology for computing the cost of capital of firms and projects.
- Define a criterium for distinguishing the situation in which is optimal to use dividends instead of share repurchases for compensating shareholders.

General capacities:
- The capacity to use reasonable approximations for achieving a financial objective
- The ability to tackle uncertainty issues, while making sensibility analyses in such uncertain freameworks.
- The relevance of approaching a financial objective through different ways in order to have more sound financial results.

The attitudes that a student should acquire:

- A flexible view in order to change a decision if new information has arrived.
- A critical view of managers in order to understand that a firm value is not always what the managers pursue.
- A collaborative attitude in order to obtain from the different agents the information required for achieving difficult objectives.
- Understand that behind any managerial decision there is an ethical code.

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DESCRIPTION OF CONTENTS: PROGRAMME

This is a basic introductory course in corporate finance. Basically, we present different elements that are necessary to value companies and how to use financial structure to increase the value of a company taking into account the effect they have on the overall firm's risk. In a complementary manner, we will study how the financial structure can be used as an instrumental element to reduce agency conflicts within the firm, and compensation policies to complement various stakeholders (mainly shareholders)

The progam is divided into five main parts:

FIRST PART: Description of the main financial instruments. Pros and cons of each financial instrument

SECOND PART: A firm's financial structure. The Modigliani-Miller framework

THIRD PART: Firm's weighted average cost of capital.

FOURTH PART: Firm valuation and Project valuation. Differentiation between standard and non-standard projects.

FIFTH PART: Shareholders' compensation and its relationship with financial structure.

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LEARNING ACTIVITIES AND METHODOLOGY

The methodology is a combination of the following items:

(1) Theoretical classes. There are 14 classes in which the main theoretical foundations are presented. The students will have the slides in advance in order to makes these classes as efficient as possible.
(2) Case studies. There are 4 case studies that the students distributed in groups will have to solve-discuss. These cases change every year and try to be as actual as possible.
(3) Use of on-line information sources in order to obtain the calibration in the main parameters needed for computing a firm¿s cost of capital as well as its value.
(4) 6 Lists of exercises that will be corrected every 2 weeks. These lists are uploaded at the beginning of the course. The students will have to send their responses the class previous of the correction of the list in class.

ASSESSMENT SYSTEM

% end-of-term-examination/test:	60
% of continuous assessment (assigments, laboratory, practicals…):	40

The final grade is the weighted average of the following items:

1. Cases (20%). The students will have to present 4 case studies in groups of 4 students each

2. First partial exam of lecures 1-2 (5% of the final grade). Second partial exam of lectures 1-3 (15% of the final grade)

3. A final exam (60%) This is a multiple choice exam, mainly focused on practical issues. A MINIMUM GRADE OF 4.00 OVER 10.00 IS REQUIRED

BASIC BIBLIOGRAPHY

- Brealey, R. A. and S. C. Myers Financial Management, McGraw Hill, 1998

ADDITIONAL BIBLIOGRAPHY

- David Hillier, Mark Grinblatt and Sheridan Titman Financial Markets and Corporate Strategy: European Edition, McGraw-Hill, 2013

- GRINBLATT, M. y TITMAN, S. (1998) Mercados Financieros y Estrategia Empresarial / Financial Markets and Corporate Strategy, McGraw Hill.