

Academic Year: ( 2018 / 2019 )

Review date: 24-01-2019

Department assigned to the subject: Business Administration Department

Coordinating teacher: MAYORAL BLAYA, SILVIA

Type: Compulsory ECTS Credits : 6.0

Year : 2 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 must 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.
- ¿ Being able to value companies as well as investment projects.
- ¿ Connect the different shareholder's 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 comparable 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 frameworks.
- ¿ 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 to change a decision if new information has arrived.
- ¿ A critical view of managers to understand that a firm value is not always what the managers pursue.
- ¿ A collaborative attitude to obtain from the different agents the information required for achieving difficult objectives.
- ¿ Understand that behind any managerial decision there is an ethical code.

**DESCRIPTION OF CONTENTS: PROGRAMME**

The program is divided in five main parts:

- I. Description of the main financial instruments. Pros and cons of each financial instrument
- II. A firm's financial structure. The Modigliani-Miller framework
- III. Firm's weighted average cost of capital: WACC
- IV. Firm valuation and Project valuation. Differentiation between standard and non-standard

projects.

V. Shareholders' compensation and its relationship with financial structure.

## 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 to make these classes as efficient as possible.
2. Case studies.
3. Use of on-line information sources to obtain the calibration in the main parameters needed for computing a firm's cost of capital as well as its value.
4. Lists of exercises that will be corrected every 2 weeks. These lists are uploaded at the beginning of the course.

## ASSESSMENT SYSTEM

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

- ¿ Final exam (\*): multiple-choice exam, mainly focused on practical issues. 60%.
- ¿ 3 Partial exams: 10%.
- ¿ Set of exercises, to be handed in individually. 20%.
- ¿ Cases. The students will have to present 1 case studies in groups of 4 students each. 10%.

A MINIMUM GRADE OF 4.0 OVER 10.0 IS REQUIRED

<b>% end-of-term-examination:</b>	60
<b>% of continuous assessment (assignments, laboratory, practicals...):</b>	40

## BASIC BIBLIOGRAPHY

- BREALEY, R. A.; MYERS, S. C. Principles of Corporate Finance, McGrawhill/Irwin., 2011
- DAMODARAN, A. Applied Corporate finance, John Wiley & Sons, Inc., 2015
- KOLLER, T.; GOEDHART, M.; WESSELS, D. Valuation: measuring and managing the value of companies, John Wiley & Sons, Inc., 2010
- ROSENBAUM, J.; PEARL, J. Investment Banking, John Wiley & Sons, Inc., 2009