

Academic Year: ( 2024 / 2025 )

Review date: 17-05-2024

Department assigned to the subject: Business Administration Department

Coordinating teacher: TOLDRA SIMATS, ANNA

Type: Compulsory ECTS Credits : 6.0

Year : 4 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 final aim of the course is that students understand how to value companies, by analyzing and projecting their cash flows, and discounting them at the adequate cost of capital.

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

- 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 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 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.

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 final aim of the course is that students understand how to value companies, by analyzing and projecting their cash flows, and discounting them at the adequate cost of capital.

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

- 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 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 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.

## DESCRIPTION OF CONTENTS: PROGRAMME

The program is divided in six chapters:

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

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

THIRD CHAPTER: Firm valuation

FOURTH CHAPTER: Firm's weighted average cost of capital and projects' cost of capital. Differentiation between standard and non-standard projects.

FIFTH CHAPTER: 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 in order to make these classes as efficient as

possible.

(2) Case studies. There are 3 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) Lists of exercises that will be corrected every week. These lists are uploaded one week before the correction in class. The students will have to hand in their solutions to the teacher at the beginning of each class.

## ASSESSMENT SYSTEM

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

### 1. First call

The final grade represents the weighted average between a continuous assessment with a weight of 40% and a final exam with a weight of 60%.

#### 1.1 Continuous assessment includes:

- 2 midterm exams (they represent 50% of the continuous assessment and a 20% of the final grade (10% each)). The mid-term exams are multiple choices and evaluate the knowledge acquired by students during the lectures and practice classes. The first mid-term exam will include chapters 1 and 2 of the program, and the second mid-term exam will include chapters 3 and 4 of the program.

- Students must solve 3 cases and present 2 of them in class. Cases represent 50% of the continuous assessment and 20% of the final grade. Students work in groups to solve and present the cases.

- Students will be asked to work on exercises almost every week (see weekly schedule). Students can voluntarily submit the exercises to obtain extra credit in their final grade. The exercises will be submitted on an individual basis. If submitted, they will add up to 1 bonus point to the final grade if all are submitted, or the corresponding partial amount of 1 point if only some of them are submitted.

#### 1.2 Final exam:

- The final exam counts 60% of the final grade. The exam is multiple choice and includes all the material taught in both lecture and practice classes. A minimum of 4 in the final exam is required in order to pass.

### 2. Second call: Retake exam

In the event of failing in the first call, or if the student did not seat in the exam in the first call, it is possible to take the final exam in a second call. The exam will have the same characteristics as the exam in the first call (i.e. multiple choice, same amount of questions, same amount of time, minimum of 4 required to pass).

The final grade in the second call will be computed as the maximum between two options:

-- option 1: 100% of grade obtained in the retake exam

-- option 2: 60% of grade in the retake exam + 40% grade of continuous assessment

## BASIC BIBLIOGRAPHY

- Richard Brealey, Stewart Myers, Jason Allen Principles of Corporate Finance - 14th Ed., McGraw Hill, 2022

## ADDITIONAL BIBLIOGRAPHY

- Mark Grinblatt, Sheridan Titman Financial Markets and Corporate Strategy, McGraw-Hill, 2016

