



BACHELOR IN ECONOMICS SECOND YEAR

Course	Finances	Code	802359
Module	Transversal Education	Area	Business Management
Nature	Compulsory		
Credits	6	Attendance	2,7
		Non Attendance	3,3
Year	2	Semester	4

COORDINATION

DEPARTMENT
Economía Financiera y Contabilidad III
COORDINATOR AND CONTACT
Jaime Alvarez Plaza; jaime@jaimealvarez.com

TEACHING ACTIVITIES	% OF TOTAL CREDITS	ATTENDANCE
Lectures	30%	100%
Classes	10%	50%
Tutorials	6%	100%
Assessment activities	4%	100%
Homeworks and class assignments	20%	0%
Time to study	30%	0%

SYNOPSIS



BRIEF DESCRIPTION
An introduction to the tools used in financial management: financial analysis, planning & control, working capital management, capital budgeting, and a description of capital and money markets
PRE-REQUISITES
None
OBJECTIVES
To acquire a comprehensive and basic knowledge of financial markets and their functions. To learn how to use both the financing & investment management toolboxes in the decision making process within a risk-return framework.
COMPETENCES
General: CG1, CG2 Transversal: CT1, CT2 Specific: CE2, CE3, CE7
LEARNING METHODOLOGY
A mixed methodology of teaching and learning will be used in all educational activities with the aim of encouraging students to develop a collaborative and cooperative attitude in the pursuit of knowledge.
TOPICS COVERED (Syllabus)
1. Overview of Corporate Finance 1.1 What is Corporate Finance? 1.2 Forms of Business Organization 1.3 The Agency Problem 2. Financial Statements & Long-Term Financial Planning 2.1 Review of Financial Statements & taxes 2.2 Cash Flow 2.3 Financial Planning Models 2.4 External Financing and Growth 3. Introduction to Valuation: 3.1 Future & Present Value 3.2 Discounted Cash Flow Valuation 3.3 Effective Annual Rate



4. Interest Rates and Bond Valuation

- 4.1 Bond valuation, Features, types, and markets
- 4.2 Inflation and Interest Rates
- 4.3 Determinants of Bond Yields

5. Stock Valuation

- 5.1 Common Stock Valuation
- 5.2 Some Features of Common and Preferred Stock
- 5.3 The Stock Market

6. Net Present Value and other Investment Criteria

- 6.1 Net Present Value & Profitability Index
- 6.2 The (Discounted) Payback Rule
- 6.3 The Internal Rate of Return

7. Making Capital Investment Decisions

- 7.1 Project Cash Flow (CF): A First Look
- 7.2 Pro Forma Financial Statements and Project Cash Flows
- 7.3 Alternative Definitions of Operating CFs
- 7.4 Special Cases of Discounted CF Analysis

8. Project Analysis and Evaluation

- 8.1 Evaluating NPV Estimates
- 8.2 Scenario and Other What-if Analysis
- 8.3 Break-Even Analysis
- 8.4 Operating Leverage

9. Some Lessons from Capital Market History

- 9.1 Returns
- 9.2 The Variability of Returns
- 9.3 Capital Market Efficiency

10. Cost of Capital

- 10.1 Cost of Equity
- 10.2 Cost of Debt & Preferred Stock
- 10.3 The Weighted Average Cost of Capital

11. Raising Capital

- 11.1 The Financing Life Cycle
- 11.2 Underwriters, IPOs & New Equity Sales
- 11.3 Rights & Dilution
- 11.4 Debt & Shelf Registration



12. Capital Structure

- 12.1 Capital Structure & the Cost of Equity Capital
- 12.2 M&M Propositions
- 12.3 Optimal Capital Structure
- 12.4 Other Models

ASSESSMENT

Exams	% Share of Final Grade	50 %
Final Exam 50%		
Other Activities	% Share of Final Grade	40%
Pop quizzes, individual oral presentations / home assignments		
Other activities	& Share of Final Grade	10%
Active participation in the classroom		

ASSESSMENT CRITERIA

To be able to pass the course, the student must at least pass the final exam, set by the Department. Those students who have made use of illicit means in the previous test will be forced to take an oral exam. A minimum of 75% assistance is required to pass the course

Rating System:

Students will be graded (RD 1125/2003, September 5) as follows (numerical scale 0-10):

- 0 to 4.9: Fail (Suspenso SS)
- 5.0 to 6.9: Pass (Aprobado AP)
- 7.0 to 8.9: B-Grade (Notable NT)
- 9.0 to 10.0: A-Grade (Sobresaliente SB)
- Incomplete (No Presentado)

The mention "Honours" will be awarded to students who have achieved a score equal to or greater than 9

A - JUNE FINAL EXAM

>
> For those students who complete less than 20% of the required course work, and who do not take the final exam in June, they will receive a final grade of "incomplete". Otherwise, the student would be considered to have finished the course, the final grade being determined by performance on the semester course work, as outlined by the standard course rules.



Faculty of Economics and Business

To pass the subject, it is essential that the student gets at least a 5 grade / mark in the final exam.

> In case any student has made use of illegal methods during the quizzes and tests, the department will conduct an oral examination

> B- SPECIAL FINAL EXAM

If a student does not take the Special final exam approved by the Academic Secretary, a final grade of "incomplete" will be given, regardless of whether or not the required work has been completed. If the student takes the Special final exam, the grade will be determined by performance on the semester course work, as outlined by the standard course rules

Continuous assessment in the extraordinary examination: in case one student has failed the ordinary examination, having attended the final exam and participated in the continuous assessment, the mark to be considered as continuous assessment for that extraordinary examination will be the final mark obtained in the ordinary examination.

TIMETABLE

FEBRUARY

WEEK	CONTENTS	HOMEWORK & PRACTICAL CLASSES
	1. Overview of Corporate Finance 1.1 What is Corporate Finance? 1.2 Forms of Business Organization 1.3 The Agency Problem	Reading material: chapter 1 Ross Westerfield Jordan (RWJ), eighth Edition
	2. Financial Statements & Long-Term Financial Planning 2.1 Review of Financial Statements & taxes 2.2 Cash Flow 2.3 Financial Planning Models 2.4 External Financing and Growth	Reading material: chapter 2, 3, 4 Self-test problem, pag 38
	3. Introduction to Valuation: 3.1 Future & Present Value 3.2 Discounted Cash Flow Valuation 3.3 Effective Annual Rate	Reading material: chapters 5 & 6 Self-test problems each chapter,

LAST WEEK PRACTICAL CLASS 1°

MARCH



WEEK	CONTENTS	HOMEWORK & PRACTICAL CLASSES
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4. Interest Rates and Bond Valuation

- 4.1 Bond valuation, Features, types, and markets
- 4.2 Inflation and Interest Rates
- 4.3 Determinants of Bond Yields

Reading material: chapter 7
Self-test problem,

5. Stock Valuation

- 5.1 Common Stock Valuation
- 5.2 Some Features of Common and Preferred Stock
- 5.3 The Stock Market

Reading material: chapter 8
Self-test problem,

6. Net Present Value and other Investment Criteria

- 6.1 Net Present Value & Profitability Index
- 6.2 The (Discounted) Payback Rule
- 6.3 The Internal Rate of Return

Reading material: chapter 9
Self-test problem

7. Making Capital Investment Decisions

- 7.1 Project Cash Flow (CF): A First Look
- 7.2 Pro Forma Financial Statements and Project Cash Flows
- 7.3 Alternative Definitions of Operating CFs
- 7.4 Special Cases of Discounted CF Analysis

Reading material: chapter 10
Self-test problem

LAST WEEK PRACTICAL CLASS 2^o

APRIL

WEEK	CONTENT	HOMEWORK & PRACTICAL CLASSES
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8. Project Analysis and Evaluation

- 8.1 Evaluating NPV Estimates
- 8.2 Scenario and Other What-if Analysis
- 8.3 Break-Even Analysis
- 8.4 Operating Leverage

Reading material: chapter 11
Self-test problem,

9. Some Lessons from Capital Market History

- 9.1 Returns
- 9.2 The Variability of Returns
- 9.3 Capital Market Efficiency

Reading material: chapter 12



10. Cost of Capital

Reading material: chapter 14
Self-test problem

- 10.1 Cost of Equity
- 10.2 Cost of Debt & Preferred Stock
- 10.3 The Weighted Average Cost of Capital

LAST WEEK PRACTICAL CLASS 3°

MAY

WEEK CONTENT

HOMEWORK & PRACTICAL CLASSES

11. Raising Capital

Reading material: chapter 15
Self-test problem,

- 11.1 The Financing Life Cycle
- 11.2 Underwriters, IPOs & New Equity Sales
- 11.3 Rights & Dilution
- 11.4 Debt & Shelf Registration

RESOURCES

BOOKLIST

Ross, S., Westerfield, R., Jordan, B. (2010): Fundamentals of Corporate Finance, Ninth Edition, McGraw-Hill

COMPLEMENTARY BOOKLIST

Brealey, R., Myers, S., Allen, F. (2008): Corporate Finance; 9th ed; McGraw-Hill Irwin
Ross, S., Westerfield, R., Jordan, B. (2008): Corporate Finance Fundamentals, Eighth Edition, McGraw-Hill

OTHER RESOURCES

Slides provided on-line