

# BACHELOR IN ECONOMICS SECOND YEAR

<b>Course</b>	<b>Finance</b>	<b>Code</b>	802359
<b>Module</b>	Transversal Education	<b>Area</b>	<b>Business Management</b>
<b>Status</b>	Compulsory		
<b>Credits</b>	6	<b>Attendance</b>	3.6
		<b>Non Attendance</b>	2.4
<b>Year</b>	2º	<b>Semester</b>	4

## PROFESSORS, GROUPS, TIMETABLE

<b>Lecturer / Professor</b>	<b>Group</b>	<b>Office</b>	<b><u>Office Hours</u></b>
Salvador Rojí Ferrari	E	# 77, Building 6º "Las caracolas"	

### PROFESSORS

**Coordinator (group E):** Salvador Rojí Ferrari. Dept: Economía Financiera y Contabilidad III, e-mail: [srojifer@ccee.ucm.es](mailto:srojifer@ccee.ucm.es) . Phone: 91-394-2536

## 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

## 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. Return, Risk, and the Security Market Line**

- 10.1 Expected Returns and Variances
- 10.2 Announcements, Surprises, & Expected Returns
- 10.3 Diversification & Portfolio Risk
- 10.4 Systematic Risk and Beta
- 10.5 The Security Market Line

## **11. Cost of Capital**

- 11.1 Cost of Equity
- 11.2 Cost of Debt & Preferred Stock

11.3 The Weighted Average Cost of Capital

## 12. Raising Capital

12.1 The Financing Life Cycle

12.2 Underwriters, IPOs & New Equity Sales

12.3 Rights & Dilution

12.4 Debt & Shelf Registration

## 13. Capital Structure

13.1 Capital Structure & the Cost of Equity Capital

13.2 M&M Propositions

13.3 Optimal Capital Structure

13.4 Other Models

## 14. Dividend Policy

14.1 Cash Dividend

14.2 Does Dividend Policy Matter?

14.3 Establishing a Dividend Policy

14.4 Stock Repurchase & Stock Dividends, & Stock Splits

### TEACHING ACTIVITIES DISTRIBUTION

Theoretical lessons	% of Total Credits	30%
Practical lessons	% of Total Credits	15%
Other Activities	% of Total Credits	55%
Individual & Group Tutorships: 10%, Assessment Activities: 5%, Individual & Group Homework Assignments: 10%, Hours to Study: 30%		

### ASSESSMENT

Exams	% Share of Final Grade	50 %
Final Exam 50%		
Other Activities	% Share of Final Grade	30%
Pop quizzes 30%		
Other activities	& Share of Final Grade	20%

Active participation in the classroom: 10%  
Individual oral presentations / home assignments: 10%  
A minimum of 75% assistance is required to pass the course

## ASSESSMENT CRITERIA

### 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

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> 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.

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

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### > 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

# TIMETABLE

## FEBRUARY

WEEK	CONTENTS	HOMEWORK & SEMINARS
	<b>1. Overview of Corporate Finance</b> 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
	<b>2. Financial Statements &amp; Long-Term Financial Planning</b> 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
	<b>3. Introduction to Valuation:</b> Reading material: chapters 5 & 6 Self-test problems each chapter, 3.1 Future & Present Value 3.2 Discounted Cash Flow Valuation 3.3 Effective Annual Rate	

LAST WEEK SEMINAR 1°

## MARCH

WEEK	CONTENTS	HOMEWORK & SEMINARS
	<b>4. Interest Rates and Bond Valuation</b> 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,

<b>5. Stock Valuation</b>	Reading material: chapter 8 Self-test problem,
5.1 Common Stock Valuation 5.2 Some Features of Common and Preferred Stock 5.3 The Stock Market	
<b>6. Net Present Value and other Investment Criteria</b>	Reading material: chapter 9 Self-test problem
6.1 Net Present Value & Profitability Index 6.2 The (Discounted) Payback Rule 6.3 The Internal Rate of Return	
<b>7. Making Capital Investment Decisions</b>	Reading material: chapter 10 Self-test problem
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	
LAST WEEK SEMINAR 2 <sup>o</sup>	

## APRIL

WEEK	CONTENT	HOMEWORK & SEMINARS
<b>8. Project Analysis and Evaluation</b>	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,
<b>9. Some Lessons from Capital Market History</b>	9.1 Returns 9.2 The Variability of Returns 9.3 Capital Market Efficiency	Reading material: chapter 12
<b>10. Return, Risk, and the Security Market Line</b> Self-test problem	10.1 Expected Returns and Variances 10.2 Announcements, Surprises, & Expected Returns 10.3 Diversification & Portfolio Risk 10.4 Systematic Risk and Beta 10.5 The Security Market Line	Reading material: chapter 13

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**11. Cost of Capital**Reading material: chapter 14  
Self-test problem

11.1 Cost of Equity

11.2 Cost of Debt &amp; Preferred Stock

11.3 The Weighted Average Cost of Capital

**LAST WEEK SEMINAR 3<sup>o</sup>**

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**MAY**

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**WEEK      CONTENT****HOMEWORK & SEMINARS**

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**12. Raising Capital**Reading material: chapter 15  
Self-test problem,

12.1 The Financing Life Cycle

12.2 Underwriters, IPOs &amp; New Equity Sales

12.3 Rights &amp; Dilution

12.4 Debt &amp; Shelf Registration

**13. Capital Structure**Reading material: chapter 16  
Self-test problem,13.1 Capital Structure & the Cost of Equity  
Capital

13.2 M&amp;M Propositions

13.3 Optimal Capital Structure

13.4 Other Models

**14. Dividend Policy**Reading material: chapter 17  
Self-test problem,

14.1 Cash Dividend

14.2 Does Dividend Policy Matter?

14.3 Establishing a Dividend Policy

14.4 Stock Repurchase & Stock Dividends, &  
Stock Splits**LAST WEEK SEMINAR 4<sup>o</sup>**

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## 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