Centro Universitario EDEM
Adscrito a Universitat de València

FINANCING THEORY

COURSE DETAILS

Code	35806
Degree	Degree in Business Management
Mention	Business creation and management
Character	Compulsory
Year	3rd
ECTS	6

Professor

Name	Department	Tutorials
Catalán Lapesa, Ximo	Business Finance	Monday 10.30 to 12.30 (by appointment)

SUMMARY

Financing Theory course is taught in the third course, first semester, of the Degree in Business Administration from the University Center EDEM. It is part of the Principles of Financial Management, and includes part of the body of knowledge necessary to carry out the financial management of any company. Specifically, it deals with the description, analysis and evaluation of corporate financing instruments both internal (self-financing) and external (stocks, bonds ...) and major decisions concerning such financing (debt policy and dividend policy).

Moreover, given the overall objective of financial management of the company (i.e., maximize the market value of the company for the shareholder), it is essential interrelating investment decisions (course studied in the Theory of Investment, 2nd year) with financing decisions (the characteristics of the course now before us). All this in the field of basic financial assessment criteria: risk-return, portfolio management and CAPM model, in order to know the minimum return to be required to a productive investment given its level of risk, and therefore the maximum cost of financing ("cost of capital") that must be endured with such investment so that it can be described as "profitable".

PRIOR KNOWLEDGE

Relationship to other subjects of the same degree

No registration limitations with other subjects of the curriculum are specified.

Other requirements

To follow explanations of class and understand the concepts of the subject is necessary the student has a basic knowledge of Investment Theory, Statistics, Accounting Finance and Financial Mathematics.

COMPETENCES

BASIC COMPETENCES:

- Ability for analysis and synthesis.
- Ability to organize and planning.
- Oral and written communication skills in native language.
- Ability to use business English.
- Ability to use Information and Communication Technologies (ICTs) in the field of study.
- Ability to analyze and search for information from various sources.
- Problem-solving ability.
- Ability to decision-taking.
- Ability to negotiate and reconcile interests effectively.
- Ability to transmit and communicate complex ideas and approaches to both specialist and non-specialist audiences.
- Ability to apply economic principles to the diagnosis and resolution of social issues such as immigration, discrimination and others that affect society and market.
- Teamwork ability.
- Skill in personal relationships.
- Critical capacity and self-criticism.
- Commitment to ethics and social responsibility.
- To manage time effectively.
- Capacity to learn independently.
- Capacity for adapting to new situations.
- Creativity.
- Leadership and inspiring others skills.
- Work initiative and entrepreneurship.
- Motivation for quality.
- Capacity to positively contribute to environmental and social issues awareness, and to overcome all forms of discrimination, which is essential for economic development and poverty reduction.
- Ability to coordinate activities

SPECIFIC COMPETENCES:

- To understand the concept of market efficiency and its implication in company financing.
- To know different remuneration policies to shareholders and its effects on the value of the company.
- To know different financing instruments and be able to determine company debt policy.

LEARNING OUTCOMES

- To distinguish clearly between different types of financing carried by a company and be familiar with relationships between investment and financing decisions.
- To find firm's mix of debt and equity financing that maximizes the overall market value of the firm.
- To design a debt policy and the optimal dividends policy given the circumstances of the company.
- To measure the cost of capital and identify different risks involved.
- To use spreadsheets to calculate project and company valuation.
- To establish and develop viable investment and financing policies appropriate to student entrepreneur project.

COURSE CONTENTS

Chapter 1. FINANCIAL INSTRUMENTS FOR ENTREPRENEUR

We analyze the long-term financing decisions and the sources of financing. Money for new investments may come from profits that companies retain and reinvest, selling new debt or equity securities. The financing patterns raise several interesting questions.

A second task in the chapter is to review some of the essential features of debt and equity. Lenders and stockholders have different cash flow rights and also different control rights. The simple division of cash flow among debt and equity glosses over the many different types of debt that company issue. Therefore, this chapter includes a brief analysis of main categories of debt, including discussions on venture capital and similar sources of financing.

Chapter 2. COST OF CAPITAL

Managers must adjust risk in capital budgeting, demanding higher rates or return from risky projects.

In this chapter we're going to discuss about the idea of cost of capital as the right discount rate, but only for investments that have the same risk as the company's overall business. In this way, we'll go through the concepts of measuring the cost of equity and analyzing project risk.

Chapter 3. MARKET EFFICIENCY

This chapter is devoted to explaining and evaluating efficient-market hypothesis. Students need to understand the efficient-market hypothesis not because it is universally true but because it leads you to ask the right questions. It's important because financing decisions seem overwhelmingly complex if you don't learn to ask right questions. We would like you to flee from confusion to the myths that often dominate popular discussion of corporate financing.

Chapter 4. PAY-OUT POLICY

Corporations can return cash to their shareholders by paying a dividend or by repurchasing shares. In this chapter we explain how financial managers decide on the amount and form of payout.

Chapter 5. DEBT POLICY

When a company issues both debt and equity securities, it splits the cash flows into two streams; a stream that goes to the debt-holders and a stream that goes to the stockholders. The firm's mix of debt and equity financing is called its capital structure. There are many different flavors of debt, at least two flavors of equity (common versus preferred), plus hybrids such as convertible bonds. The firm can issue dozens of distinct securities in countless combinations. It attempts to find the particular combination that maximizes the overall market value of the firm. In this way, the chapter includes Modigliani and Miller propositions.

This chapter also undertakes an analysis of the effect of taxes in capital structure.

Chapter 6. FINANCING AND VALUATION

This chapter explains and derives the after-tax weighted average capital cost (WACC) and uses it to value a project and business. Then it goes through a more complex and realistic valuation problem. It also includes specifics aspects such as how to estimate inputs and on how to adjust WACC when business risk or capital structure changes.

Chapter 7. RISK: CREDIT RISK, MANAGING RISK, INTERNATIONAL RISKS

When a Public Administration borrows money, people can be confident that the debt will be repaid in full and on time. This is not always true in case of corporate borrowing. So, bondholders may be aware of danger that they will not get their money back and so demand a higher rate of interest. The extra yield on corporate bonds is the annual payment that investors demand for taking on the possibility of default.

This chapter reviews of corporate bonds by looking at how this yield spread varies with the likelihood of default. It also looks at bond ratings and some of the techniques that are used by banks and bond investors to estimate the probability that the borrower will not be able to repay its debts.

This chapter explains how companies also use financial contracts to protect against various hazards and to reduce business risks. It describes briefly forward and futures contracts, which can be used to lock in future price of commodities such as oil, copper, or soybeans. Financial forward and futures contracts allow the firm to lock in the prices of financial assets such as interest rates or foreign exchange rates. And it also describes swaps, which are packages of forward contracts.

WORKLOAD

IN-CLASS ACTIVITIES	HOURS
Lectures	30.0
Practical sessions, related to problems resolution, case studies, with application of techniques, oral presentations, debates, individually and / or as a team.	30.0
Total in-class activities	**60.0**
NON-CLASSROOM ACTIVITIES	
Assignment preparation both individually and in team with tutorial support.	40.0
Self-study	45.0
Participation in activities of The Chair of International Finance of Banco Santander of the Universitat de València http://www.catedrafinanzas.es/eventos/	5.0
Total non-classroom activities	**90.0**
TOTAL	**150.0**

TEACHING METHODOLOGY

Lectures will include teacher presentation of the content of the subject. Student participation as well as their critical thinking and debate will be assessed very positively. It is highly recommended to review corresponding book chapter and teacher material prior each session.

Practical classes will consist of solving practices by students, with teacher support and monitoring. For development of these classes, student will be provided with a collection of case studies of which a portion will be assigned to personal homework.

The student will have the necessary material before each class.

EVALUATION CRITERIA

The evaluation of students will be conducted through continuous assessment and summary exams.

There are 2 examination sessions in each course.

Each enrolment (matrícula) entitles two examinations (convocatorias).

Students must comply with the rules of writing, spelling and grammar in the development of their assignments and their exams, formal aspects that will be taken into account in the evaluation of the assignments and exams.

A) FIRST EXAMINATION SESSION

The course will be graded according to the following scheme:

A.1 CONTINUOUS ASSESSMENT (40%).

- **A.1.1 CLASS PARTICIPATION (20%)**

  It will be taken into account participation and involvement of students in teaching-learning process to develop throughout the semester, by conducting case studies, analysis assignments, and also taking into consideration their level of class participation, pro-activity and initiative.

  Attendance and participation are essential and all students are expected to participate. Intelligent and relevant discussions are expected from each student and it is an important part of the general evaluation of the course. Among other skills, class participation is very important to develop the ability to express and defend one's ideas with assertiveness so they can learn from each other. We know that active involvement in learning increases what is remembered, how well it is assimilated, and how the learning is used in new situations.

- **A.1.2 HOMEWORK (20%)**

  Assignments are defined in order to cover all the concepts and learning take-aways. All the assignments will be done individually and discussed and solved during classes.

  - **Entrepreneur project funding:** students must perform a report about how their entrepreneur project is going to be funded. Namely, how the student is going to apply the knowledge acquired through the content of the subject (Financial instruments for entrepreneur, debt policy, dividends policy, etc.) in her/his project. (10%).

  - **Subject assignments:** At the end of the semester, students have to send the teacher a set of spreadsheets, in the same file, related to practices done in classroom. (10%)

Then in this section of continuous assessment it will be fundamental class attendance, level of participation, effort and results in resolution of case studies on which the subject will be developed.

Continuous assessment is in-class and is not recoverable as requires attendance and participation. Therefore, the mark obtained for the continuous assessment of the course will be maintained in both 1st call and 2nd call.

Class attendance is mandatory for an optimal follow-up of the subject, so the absence above 15% of the total number of sessions will mean that the student is not qualified for the continuous assessment part. Consequently, the maximum grade that can be reached will be that obtained in the summary exam(s), with the weight referred to 60%.

Continuous assessment will be weighted in the final mark of **40%.**

A. 2. SUMMARY EXAMS (60%).

Summary exams will consist of two written examinations, one mid-semester and one at the end, consisting of a battery of multiple-choice questions, as well as several problems for which resolutions will be requested, all with a theoretical and practical approach.
Only chapters of the book and concepts which have already been covered will be subject to examination.

Summary exams are compulsory and to overcome each with a 5 out of 10 is compulsory to pass the course.

The first exam is eliminatory, so that students who pass the first midterm only will be examined of the issues discussed in the second midterm. Students who fail the first midterm will take the final exam, with all the content of the subject.

Students who fail the second exam or did not take it, have to take all the content of the subject in the second examination session. There will be no average of the marks of the midterm exams if the student has not obtained at least a 5 out of 10 in each of them.

In no case it will save the mark of any midterm summary exam approved for the second examination session.

Summary exams will be weighted in the final mark of **60%.**

The final grade will be a weighted average of exams and continuous evaluation and must be greater than 5: (0,6* exam + 0,4*continuous evaluation).

The maximum amount of marks is 10. Final grades will be a weighted average of all the components listed above, having to obtain a final grade of 5 (or more) to surpass the subject. However, if the exam is failed, the final mark obtained after applying the prior weighting will be a maximum of 4.5. Thus, if the exam is less than 5 and after applying the weighting the final mark is greater than 4.5, it will remain at that 4.5. If, on the other hand, this grade is less than 4.5, the grade obtained will be maintained.

B) SECOND EXAMINATION SESSION

Students failing in first examination session will have a second examination date. Continuous assessment (40% of total grade) requires attendance and participation and therefore will not be recoverable. As a consequence, the student will maintain the grade received in first examination session.

To pass second examination it must be obtained over 5 on 10 points.

In case the student needs a second examination session, the final mark is obtained by weighting the second examination exam with continuous assessment, and it must obtain a final mark higher than 5 out of 10 points to pass the course.

RE-REGISTRATION AFTER FAILING IN SECOND EXAMINATION SESSION (**)

Students who do not pass the course in 1st / 2nd call and who do not repeat course, will have to register again. They will have the right to 3rd and 4th call.

The evaluation will be as follows:

- Continuous evaluation: 20% of the final grade, which will consist of preparing individually a set of spreadsheets, in the same file, related to practices done in classroom. Student has to send the teacher the file at the end of the semester.
- Exam: 80% of the final grade.

(**) Segunda matrícula de la asignatura

REFERENCES

Basic reference:

- **BREALEY, R.; MYERS, S.; ALLEN, F (2011): Principles of Corporate Finance (10th edition). McGraw Hill.**

Extra references:

- BERK, J.; DeMARZO, P. (2008): Corporate Finance. Pearson.
- BERK, J; DeMARZO, P.; HARDFORD, J (2011): Fundamentals of Corporate Finance (2nd edition). Prentice Hall
- HARRIS, T. (2006): Start-up A practical Guide to starting and Running a New Business. Springer

- HOLDEN CRAIG W. (2011): Excel Modeling in Corporate Finance (4th edition) The Prentice Hall Series in Finance
- LASSALA, C.; MEDAL, A.; NAVARRO, V.; SANCHIS, V.; SOLER, A. (2006): Dirección financiera II: medios de financiación empresarial. Pirámide.