Corporate Finance and Investment

Course Description

This course introduces students to the targets and scope of corporate finance and the role of financial markets. The separation of ownership and control is a constituent feature of corporations; students explore the resulting agency problems and the mechanisms available to mitigate the costs of agency relationships. Students are introduced to the fundamentals of the theory and practice of modern corporate finance. They will learn to read and analyze financial statements from a finance point of view and develop a detailed understanding of concepts such as the time value of money, interest rates, and the cost of capital. After introducing basic concepts, equity and debt financing are discussed at length. The effect of financial leverage on rates of return is explored, and leasing and hybrid financial instruments are presented as an alternative to pure equity and debt financing. Students will study how corporations apply short-term measures of financing and how effective cash and working capital management reduces short-term financing needs and costs. The course concludes by discussing the investment processes of corporations with a particular focus on the challenge of estimating expected cash flows. Students will learn how to include risk as a factor in the decision process and to analyze applied investment rules and methodologies.

Contents

1. Introduction to Corporate Finance
   1. The Targets and Scope of Corporate Finance
   2. The Role of a Financial Manager
   3. The Financial Market Environment
2. Ownership and Corporate Governance
   1. Legal Types of Firms
   2. Agency Relations and Agency Problems in Corporations
   3. Institutional Investors, Incentives, and Market Control Mechanisms
3. Understanding Financial Statements and Key Performance Indicators
   1. Balance Sheets
   2. Income Statements
   3. Cash Flow Statements
   4. Measuring Performance: Key Performance Indicators
4. Basic Concepts of Financial Theory
   1. Time Value of Money and Cash Flow Streams
   2. Interest Rates: Determinants and Quotes
   3. Estimating the Cost of Capital
5. Types of Capital and Financing
   1. Equity Capital
   2. Debt Financing
   3. Leasing
   4. Financial Leverage and Capital Structure
6. Short-Term Financing Decisions

6.1 Cash Budgets and Short-Term Financial Plans

1. Treasury and Cash Management
2. Working Capital Management
3. Capital Budgeting and Decision-Making Methods in Investment

7.1 Capital Budgeting and Investments

1. Incorporating Risk in Capital Budgeting Decisions
2. Investment Rules and Decision-Making Methods