

# Investment and capital structure decisions

**EM365M73A1**

**Program**

**PGE**  
PGE 3A - Accounting and Auditing (CCF)

**UE**

Corporate Finance

**Semester**

A

**Discipline**

Finance

**Contact hours**

20 H

**Number of spots**

100

**ECTS**

3

**Open to visitors**

Yes

**Language**



## Coordinator

Enrico Prinz



## List of lecturers

Lecturer(s)	Email	Contact hours - lecture
Enrico PRINZ	<a href="mailto:enrico.prinz@em-strasbourg.eu">enrico.prinz@em-strasbourg.eu</a>	20 h

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## Pedagogical contribution of the course to the program

### **LEARNING GOAL 1 : Students will master state-of-the-art knowledge and tools in management fields in general, as well as in areas specific to the specialized field of management.**

Students will identify a business organization's operational and managerial challenges in a complex and evolving environment.

Students will understand state-of-the-art management concepts and tools and use them appropriately.

Students will implement appropriate methodologies to develop appropriate solutions for business issues.

### **LEARNING GOAL 2 : Students will develop advanced-level managerial skills.**

Students will participate in a decision-making process in a critical way.

### **LEARNING GOAL 4: Students will study and work effectively in a multicultural and international environment.**

Students will demonstrate written and oral competency in two foreign languages.

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## Description

The lecture aims to offer students a comprehensive overview about the complexity of investment and financing decisions of firms. After an introduction, class participants will deal with major investment decision methods and discuss their respective strengths and weaknesses. Will be presented, in a second step, techniques to transform accounting numbers into free cash flows. The chapter will be completed with an in-depth presentation of risk-pricing methods and the estimation of a firm's cost of capital. The following chapter will be focused on capital structure decisions. After a recall of possible financing solutions, students will discover the assumptions of Modigliani & Miller in a perfect market. Based upon this knowledge, the scope of the financial leverage and its limits will be introduced and discussed whereas a particular focus will be set on the question of an optimal capital structure. The last part of the course addresses the question of value creation. Will be introduced and compared here the most frequently used performance indicators. The class finishes with a synthesis of possible payout policies and their consequences for shareholders. To bridge the gap between theory and practice, students will do numerous exercises throughout the lecture.

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## Teaching methods

### Face-to-face

- Lectures

### In group

- Exercises

### Interaction

**No items in this list have been checked.**

## Others

**No items in this list have been checked.**

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## Learning objectives

### Cognitive domain

Upon completion of this course, students should be able to

- - (level 2) **explain** the impact of globalized corporate governance on businesses by emphasizing the link between governance and corporate finance.
  - - (level 3) **employ** the most frequently applied investment decision methods while taking into account their respective strengths and weaknesses.
  - - (level 3) **carry out** a project's incremental earnings forecast and their transformation into free cash flow expectations.
  - - (level 3) **operate** with and criticize the most commonly applied indicators for measuring a firm's value creation.
  - - (level 4) **compare** a firm's major financing solutions under a risk-return perspective.
  - - (level 4) **point out** the key determinants of the financial leverage effect and a firm's chosen capital structure.
  - - (level 5) **estimate** the cost of equity, cost of debt, and cost of capital of firms by using their respective accounting/financial documentation and a spreadsheet software.
  - - (level 5) **evaluate** possible payout policies from a shareholder wealth perspective.
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### Affective domain

Upon completion of this course, students should be able to

**None affective domain have been associated with this course yet**

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## Outline

I General introduction (½h)

1. Raison d'être of firms
2. Corporate finance put in a nutshell

II Investment decisions (9h)

1. Net present value method and internal rate of return
2. Alternative selection methods
3. Practice of capital budgeting or the transition from profit numbers to free cash flows
4. Risk pricing and cost of capital

III Capital structure decisions (6h)

1. Funding sources and financing solutions
2. Capital structure in a perfect market

3. Market imperfections and limits of debt use
4. Optimal capital structure

#### IV Value creation and payout policy (4h)

1. Measuring wealth creation for investors
2. Payout policy choices

#### V General conclusion (½h)

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## No prerequisite has been provided

### Knowledge in / Key concepts to master

- Fundamentals of accounting (Financial statements & related principles)
- Fundamentals of corporate finance (Financing sources & underlying principles)
- Basic knowledge in economics

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## Teaching material

### Mandatory tools for the course

- Computer
- Calculator

### Documents in all formats

**No items in this list have been checked.**

### Moodle platform

- Upload of class documents

### Software

**No items in this list have been checked.**

### Additional electronic platforms

**No items in this list have been checked.**

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## Recommended reading

### Main reading material

- BERK, Jonathan / DE MARZO, Peter / HARFORD, Jarrad (2022): Fundamentals of Corporate Finance, Prentice Hall, 5rd ed. (or previous editions)
- DAMODARAN, Asworth (2015) : Applied Corporate Finance, John Wiley & Sons, 4th ed.

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Additional literature

- BREALEY, Richard / MYERS, Stewart / ALLEN, Franklin (2022): Principles of Corporate Finance, McGraw Hill, 14th ed.
  - HILLIER, David / ROSS, Stephen / WESTERFIELD, Randolph / JAFFRE, Jeffrey / JORDAN, Bradford (2020) : Corporate Finance, McGraw Hill, 4rd ed.
  - VERNIMMEN, Pierre / QUIRY, Pascal / LE FUR, Yann (2022): Finance d'entreprise, Dalloz, 20th ed.
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**EM Research: Be sure to mobilize at least one resource**

Textbooks, case studies, translated material, etc. can be entered

- none

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**Assessment**

**List of assessment methods**

**Final evaluation** Exam week

Written (120 Min.) / Individual / English / Weight : 100 %

**This evaluation is used to measure LO1.1, LO1.2, LO1.3, LO2.2**