

Investment and capital structure decisions

EM365M73A2

Program

PGE
PGE 3A - Accounting and Auditing (CCF)

UE

Corporate Finance

Semester

A

Discipline

Finance

Contact hours

20 H

Number of spots

100

Open to visitors

Yes

Language



Coordinator

Enrico Prinz



List of lecturers

Lecturer(s)	Email	Contact hours - lecture
Syed Hassan Raza KAZMI	shrkazmi@em-strasbourg.eu	20 h

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.

Description

The lecture aims to offer students a comprehensive overview about the complex 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 in a next step 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 for this purpose the most frequently used performance indicators for measuring performance. 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 a couple of exercises throughout the lecture and are expected to hand-in a group work based estimation of the cost of capital of a given corporation.

Teaching methods

Face-to-face

- Lectures
- Tutorials

In group

- Exercises

Interaction

- Discussions/debates

Others

No items in this list have been checked.

Learning objectives

Cognitive domain

Upon completion of this course, students should be able to

- - (level 2) **Describe** the key idea of corporate governance and explain its link to corporate finance.
- - (level 2) **Summarize** the most frequently applied investment decision methods by focusing on their respective strengths and weaknesses.
- - (level 3) **Employ** the net present value method by conducting a project's incremental earnings forecast and the transformation of it into free cash flow expectations.
- - (level 3) **Compute** the cost of equity, cost of debt and cost of capital of listed firms by using their respective accounting / financial documentation and a spreadsheet software.
- - (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) **Synthesize** the most commonly applied indicators for measuring a firm's value creation.
- - (level 6) **Evaluate** possible payout policies from a shareholder wealth perspective.

Affective domain

Upon completion of this course, students should be able to

None affective domain have been associated with this course yet

Outline

I General introduction (½h)

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

II Investment decisions (10h)

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 (7h)

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

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
-

Teaching material

Mandatory tools for the course

- Computer
- Calculator

Documents in all formats

- Photocopies

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.

Recommended reading

Main reading material

- BERK, Jonathan / DE MARZO, Peter / HARFORD, Jarrad (2014): Fundamentals of Corporate Finance, Prentice Hall, 3rd ed. (or previous editions)
- HILLIER, David / ROSS, Stephen / WESTERFIELD, Randolph / JAFFRE, Jeffrey / JORDAN, Bradford (2016) : Corporate Finance, McGraw Hill, 3rd ed.

Additional literature

- BREALEY, Richard / MYERS, Stewart / ALLEN, Franklin (2013): Principles of Corporate Finance, McGraw Hill, 11th ed.
 - DAMODARAN, Aswath (2015) : Applied Corporate Finance, John Wiley & Sons, 4th ed.
-

EM Research: Be sure to mobilize at least one resource

Textbooks, case studies, translated material, etc. can be entered
- none

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