

# Universidade Nova de Lisboa

Faculdade de Economia

## Syllabus Corporate Finance (# 1203)

Undergraduate Programs in Management and Economics  
(1st Cycle – 7,5 ECTS)

2007/2008 (Spring Semester)

Faculty:  
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**COURSE OBJECTIVES:** The main objective of this course is to acquaint students with the main concepts and tools of the modern theory of Finance that are required to analyse corporate financial decisions. The approach used in the course combines the presentation of the theory with introductory applications of the concepts. By the end of the course, students are expected to be familiar with fundamental concepts and to be able to use them in problems and short cases.

**COURSE OUTLINE:** The first part of the course discusses corporate valuation problems (including capital budgeting) assuming that the company is fully financed by the shareholders (no financial leverage). The second part of the course deals, in very simple terms, with the equilibrium relationship between risk and return. The third and final part of the course deals with the financing decision, with an emphasis on the choice of capital structure.

**BIBLIOGRAPHY:** Ross, Westerfield e Jaffe, "*Modern financial management*", 8<sup>th</sup> Edition, McGraw-Hill, 2007.

### OFFICE HOURS:

José Neves Adelino: Wednesdays, 11:30am-1:00pm, 1st floor, Marquês de Fronteira, 20.  
Bernardo Fazendeiro: Tuesdays, 11:00am-12:30pm, Office 128, Campus de Campolide.  
Isaac Hacamo: Fridays, 09:30pm-11:00pm, Office 127, Campus de Campolide.

### GRADING:

Grading reflects the fact that students are required to use the materials as they are presented in class.

Unannounced short quizzes will be assigned at the beginning of some of the classes. These will be simple problems, intended to evaluate the ability of students to accompany the materials as they are presented. If the student does not show up in the class where she or he belongs, on the dates of the quizzes, a no-show grade will be assigned. Students are not allowed to take the quizzes in rooms different from the ones in which they are registered.

Students will also be required to analyse and solve two short cases. Each case requires students to prepare a written report to be presented to the teaching assistants on due dates (please see course schedule). For the purpose of case analysis, students must organize themselves in groups of three to four participants. Students registered for the course must send an e-mail to [bfazendeiro@fe.unl.pt](mailto:bfazendeiro@fe.unl.pt), by the end of February, with subject "Group composition", informing the teaching assistants of the composition of the groups to which they belong.

Both the mid-term and the final exam are required. **Passing grades in the course require a minimum grade of 7,5 in the final exam.**

Second round final exam students will be assigned grades using the same weights as first round final exam students. This means that the second round final exam represents 50% of the assigned grade.

Unannounced short quizzes:	10%
Case analyses:	20% (10% + 10%)
Mid-term:	20%
Final exam:	50%
<b>Final grade:</b>	<b>100%</b>

### RELEVANT DATES:

2008/02/22	First session
End of February	Mail to <a href="mailto:btfazendeiro@fe.unl.pt">btfazendeiro@fe.unl.pt</a> group composition
2008/03/14	Last session before Easter Break
2008/03/26	First session after Easter Break
2008/03/28	JB Ferro – due date for Case Question 1
2008/04/04	JB Ferro – due date for Case Question 2
2008/04/19	Mid-term
2008/04/28	JB Ferro – due date for Case Question 3
2008/05/21	Due date for UST Case written report – last Lab Session
2008/06/11	Final exam (1st round)
2008/06/30	Final exam (2nd round)

### COURSE POLICY

Students are expected to access the syllabus of the course before the beginning of course sessions. In my classes I assume that students read assigned book chapters and extra materials in advance of the presentation. Materials will be posted in both the official site of the course and the site <http://docentes.fe.unl.pt/~btf>, managed by one of the course teaching assistants. Dual posting is intended to make access to materials easier to students. Extra materials include class notes. Students are encouraged to access the sites, on a regular basis, and bring to class a printed set of class materials. This will help them during the sessions.

I require students to show up in class on time. I will do my best to behave accordingly. Late arrival to class has two types of problems. First, it disrupts the class. Second, it makes life more difficult for those who arrived on time. Students who do not show up on time will not be allowed to attend the session.

I strongly recommend students to attend classes. Even though I assign a textbook that should be used by students in preparing for the course, for pedagogical reasons, sessions may be quite different, in the presentation format, from the approach adopted by the textbook. Session contents will, as would be expected, be in line with text contents. However, no attendance records will be kept in theoretical sessions. As a result, I assume that students who attend the session are interested in the presentation and willing to be active participants. Such involvement

in the session is very important both for the understanding of the materials and for the overall development of the student.

Even though some of you might consider this final comment unnecessary, I remind all students that they are required to abide by the code of conduct adopted by the Universidade Nova de Lisboa. Abiding by the code of conduct means that students' behaviour reflects the set of values sponsored by our School.

### Detailed outline

Session	Date	Topic	Chapter
1	08/02/22	<b>1. Intro to Corporate Finance.</b> <i>Corporate Finance in the 1st cycle;</i> <i>The role of financial management;</i> <i>Information, valuation and price formation:</i> The role of the financial system.	1 / 2
2	08/02/27	<b>2. Value and capital budgeting.</b> <i>Financial markets and net present value:</i> The functioning of financial markets; The importance of price revelation: interest rates; First approach to the investment decision.	4
3	08/02/29	<i>Introduction to time value of money:</i> Present value and future value; Multi-period analysis; Special application: perpetuities, annuities; growing perpetuities.	4
4	08/03/05	<i>Introduction to bond valuation:</i> Term structures of interest rates; Bonds; Bond valuation.	5
5	08/03/07		
6	08/03/12	<i>Introduction to the valuation of common stocks:</i> Choosing the model; Estimating the parameters; Common stock valuation; Net present value of future growth opportunities.	5
7	08/03/14		
8	08/03/26	<i>Capital budgeting decisions:</i> Fundamentals of capital budgeting; Incremental cash flows: operating cash flows; investment in working capital and fixed assets. The Net present value criterion. Dealing with inflation.	7
9	08/03/28		
10	08/04/02		
11	08/04/04	Alternative investment criteria: IRR and <i>Payback</i> . Special applications: alternative projects; projects with different time horizons.	6
12	08/04/09	<i>Strengths and weaknesses of discounted cash flow Project evaluation :</i> Financial valuation and operating flexibility (real options); Financial valuation and strategy (real strategic options) .	8

13	08/04/11	<b>3. Risk</b> <i>Capital market theory:</i> Expected return and volatility of return; Diversification; Market efficiency and the investment decision (technical analysis, fundamental analysis and MPT).	9 13
14	08/04/16	<i>Risk and return - CAPM:</i> Risk and return for a portfolio of assets; Market equilibrium; Market portfolio; Beta. Risk and return: the CAPM.	10
15	08/04/18		
	08/04/19	<b>Mid-term</b>	
16	08/04/23	<i>Risk and return – APT:</i> Factor models; Portfolio diversification in a factor model; APT: an arbitrage model.	11
17	08/04/30	<i>Risk and valuation:</i> The cost of capital of projects fully financed with equity.	12
18	08/05/02	<b>4. Capital structure and dividend policy.</b> <i>Corporate financing:</i> Long term: equity; debt; debt-equity. Short-term financing <i>Issuing securities in financial markets.</i>	14 19 20
19	08/05/07	<i>Intro to the capital structure decision:</i> Modigliani e Miller without taxes; Modigliani e Miller with taxes; Taxes and the impact of capital structure on the value of the firm.	15
20	08/05/09	<i>Capital structure: debt capacity:</i> Bankruptcy; Agency costs and asymmetries of information.	16 3
21	08/05/14	<i>Valuation with debt:</i> Adjusted present value (APV); Weighted average cost of capital (WACC); Flow to equity (FTE).	17
22	08/05/16	<i>Dividend policy:</i> The irrelevance of dividends; What determines dividend policy.	18 2
23	08/05/21	<i>Financial statement analysis:</i> Required information; Financial planning; <i>Financial ratios: liquidity; profitability; solvability; activity; market.</i>	
	08/06/11 08/06/30	<b>Final exam</b>	