

Finance II

Code: 102328
 ECTS Credits: 6

| Degree | Type | Year | Semester |
|--|------|------|----------|
| 2501572 Business Administration and Management | OB | 3 | 2 |
| 2501573 Economics | OT | 3 | 2 |
| 2501573 Economics | OT | 4 | 0 |

Contact

Name: Carlota Menéndez Plans
 Email: Carlota.Menendez@uab.cat

Use of languages

Principal working language: catalan (cat)
 Some groups entirely in English: Yes
 Some groups entirely in Catalan: Yes
 Some groups entirely in Spanish: No

Prerequisites

i) Standard requirements for the third course of the undergraduate degree and ii) having followed the subject *Finance I*. iii) Students registered in *Finance II* are also expected to have the skills assigned to previous courses.

Objectives and Contextualisation

The course Finance II is aimed at providing basic knowledge necessary for capital budgeting decision making process. Departing from the concepts and the form of reasoning learned in Finance I, this course analyzes and studies some decisions that financial manager has to make on regular basis. All companies are faced with new investment projects which they have to analyze from both, economic and financial perspective. In this course the principal existent techniques will be studied, their application, interpretation and adaption to real world. In addition, as there is no investment without financing, the characteristics of the principal source of financing available to companies will be studied, differentiating between small and big companies.

The principal concept of the course is the corporate value creation in the real economy through the selection of new investments that are most suited to the corporate strategy. The interaction investment-financing is very important for the company in order to be able to reach its return objectives, without overlooking the cost of capital, always established depending on risk. The important role of risk in finance, which has been already studied in Finance I, continues to be present in deciding the feasibility of new investments in economic and financial sense. In order to create value it is necessary to engage in investment projects capable to create value which depends on the return of the investment and the cost of capital or cost of financing.

Skills

Business Administration and Management

- Apply the basic statistics for improving capacity for work in situations of risk, understanding their origins and developing possible strategies for reducing or mitigating their effects.
- Apply theoretical knowledge of finances to improve relations with sources of financing, identifying the different forms of financing and the advantages and disadvantages for the company and the providers.

- Capacity for adapting to changing environments.
- Capacity for independent learning in the future, gaining more profound knowledge of previous areas or learning new topics.
- Capacity for oral and written communication in Catalan, Spanish and English, which enables synthesis and oral and written presentation of the work carried out.
- Demonstrate initiative and work individually when the situation requires it.
- Manage conflicts of interest and in particular conflicts involving proposals for the fair distribution of value generated.
- Organise the work in terms of good time management, organisation and planning.
- Select and generate the information necessary for each problem, analyse it and take decisions based on that information.
- Take decisions in situations of uncertainty, demonstrating an entrepreneurial and innovative attitude.
- Value ethical commitment in professional practice.
- Work well in a team, being able to argue proposals and validate or reject the arguments of others in a reasoned manner.

Learning outcomes

1. A capacity of oral and written communication in Catalan, Spanish and English, which allows them to summarise and present the work conducted both orally and in writing.
2. Apply the main principles of risk management.
3. Apply the methodology of financial economy reasoning and differentiate it from its equivalent in real economy.
4. Assess ethical commitment in professional activity.
5. Assess investment opportunities from a strategic perspective.
6. Capacity to adapt to changing environments.
7. Capacity to continue future learning independently, acquiring further knowledge and exploring new areas of knowledge.
8. Demonstrate initiative and work independently when required.
9. Formulate indebtedness and dividend policies.
10. Make decisions in situations of uncertainty and show an enterprising and innovative spirit.
11. Organise work, in terms of good time management and organisation and planning.
12. Select and generate the information needed for each problem, analyse it and make decisions based on this information.
13. Understand the formation of value from the perspective of shareholders.
14. Work as part of a team and be able to argue own proposals and validate or refuse the arguments of others in a reasonable manner.

Content

1 Investment projects, financing projects and aggregated projects.

- 1.1 Structuring of investment projects
- 1.2 Structuring of financing projects
- 1.3 Structuring of aggregated projects.

2 Capital budgeting techniques for new investment projects: application and decision criteria

- 2.1 The Net Present Value (NPV)
- 2.2 Internal Rate of Return (IRR) versus maximum cost of capital
- 2.3 Net Final Value (NFV)
- 2.4 Complementary criteria: profitability index, discounted pay-back, equivalent annual annuity

2.5 Other aspects to consider: anomalies in capital budgeting

3 Risk and uncertainty in capital budgeting

3.1 Risk, uncertainty, forecasts and goals

3.2 Expected value, risk premium and estimating the required rate of return in capital budgeting

3.3 Introduction to sensitivity analysis

4. Effect of inflation

4.1 Expected inflation and adptation rate

4.2 Investment project, financing projects and aggregated projects in nominal currency units

5 Capital budgeting and strategy

5.1 Market value as the core of capital budgeting

5.2 Competitive advantage and project analysis

5.3 Ethical investment decisions. Socially responsible capital budgeting: Environmental sustainability, social sustainability and financial sustainability

6 Real options

6.1 Introduction

6.2 Diferent real options

7 Financing sources

7.1 Debt versus equity

7.2 Issuing new shares

7.3 Internal financing

Methodology

50% of credits are theoretical and 50% practical. Theory will be taught through lectures. Lecturers will present the topics explaining the basic information necessary for better understanding of the concepts. Lecturers will encourage students' participation through questions and comments that involve reasoning when faced different situations and scenarios. The practical part will consists of problem solving, at home and in the classroom. Students are expected to participate actively in solving exercises and cases formulated in the classroom or directly requested by professor. Whenever possible, students will be encouraged to get familiarized with information about different financial markets published in the web.

Activities

| Title | Hours | ECTS | Learning outcomes |
|-----------------------|-------|------|-------------------|
| Type: Directed | | | |
| Lectures | 31 | 1.24 | 2, 3, 1, 13 |

| | | | |
|--|----|------|---|
| Solving exercises in the classroom | 19 | 0.76 | 2, 3, 1, 13, 10, 12, 4 |
| Type: Supervised | | | |
| Tutorial | 19 | 0.76 | 2, 3, 1, 7, 13, 11, 10, 12, 4 |
| Type: Autonomous | | | |
| Findig the solution of exercises and scenarios presented | 20 | 0.8 | 2, 3, 6, 1, 7, 13, 8, 11, 10, 12, 14, 4 |
| Information search and analysis of exercises and cases | 10 | 0.4 | 7, 8, 11, 12, 14 |
| Study | 45 | 1.8 | 2, 3, 6, 1, 7, 13, 8, 11, 10, 12, 14, 4 |

Evaluation

In the course Finance II achievements of students are **evaluated continuously**. The evaluation includes three activities of two different types. The final exam accounts for 50% of the final grade. The remaining two activities account for 25% of the final grade each and can include exercises, essays, cases, questionnaires, individual or group presentations, etc. that must be conducted during the semester. The exact list of these activities will be announced at the beginning of the semester.

Nevertheless, the teacher can request to perform some additional activities if he/she considers that they can enhance the learning process. The final grade in the subject is calculated as the weighted average of the three partial grades (using weights specified above).

The teacher can use the assigned to the course time slot between 01:15 p.m. and 02:15 p.m. to conduct continuous evaluation activities. Otherwise, this time slot can be used as class hours. The teacher will announce the schedule for continuous evaluation activities during the first days of the course.

To pass the course a student's final grade (using the above-indicated weighting schema) should be equal to or greater than 5. **If a student's final grade is 3.5 to 4.9, he/she will be required to take the re-evaluation exam.** A student fails the subject if his/her grade is below than 3.5.

The regulation of Faculty of Economics and Business establishes that the re-evaluation should consist of an exam covering the content of the entire course. Moreover, according to this regulation, the highest possible re-evaluation grade is 5.

If a student decides to do not take the third evaluationtest (i.e. the one which accounts for 50% of the final grade), he/she will be considered "unassessable".

Calendar of evaluation activities

The dates of the evaluation activities (midterm exams, exercises in the classroom, assignments, ...) will be announced well in advance during the semester.

The date of the final exam is scheduled in the assessment calendar of the Faculty.

"The dates of evaluation activities cannot be modified, unless there is an exceptional and duly justified reason why an evaluation activity cannot be carried out. In this case, the degree coordinator will contact both the teaching staff and the affected student, and a new date will be scheduled within the same academic period to make up for the missed evaluation activity." **Section 1 of Article 115. Calendar of evaluation activities (Academic Regulations UAB)**. Students of the Faculty of Economics and Business, who in accordance with the previous paragraph need to change an evaluation activity date must process the request by filling out an **Application for exams' reschedule**

https://eformularis.uab.cat/group/deganat_feie/application-for-exams-reschedule

Grade revision process

After all grading activities have ended, students will be informed of the date and way in which the course grades will be published. Students will be also be informed of the procedure, place, date and time of grade revision following University regulations.

Retake Process

"To be eligible to participate in the retake process, it is required for students to have been previously been evaluated for at least two thirds of the total evaluation activities of the subject." **Section 3 of Article 112 ter. The recovery (UAB Academic Regulations).** Additionally, it is required that the student to have achieved **an average grade of the subject between 3.5 and 4.9.**

The date of the retake exam will be posted in the calendar of evaluation activities of the Faculty. Students who take this exam and pass, will get a grade of 5 for the subject. If the student does not pass the retake, the grade will remain unchanged, and hence, student will fail the course.

Irregularities in evaluation activities

In spite of other disciplinary measures deemed appropriate, and in accordance with current academic regulations, *"in the case that the student makes any irregularity that could lead to a significant variation in the grade of an evaluation activity, it will be graded with a 0, regardless of the disciplinary process that can be instructed. In case of various irregularities occur in the evaluation of the same subject, the final grade of this subject will be 0"*. **Section 10 of Article 116. Results of the evaluation. (UAB Academic Regulations).**

Evaluation activities

| Title | Weighting | Hours | ECTS | Learning outcomes |
|--------------------------------------|-----------|-------|------|----------------------------|
| First exam of continuous evaluation | 25% | 1.5 | 0.06 | 2, 3, 1, 13, 4 |
| Second exam of continuous evaluation | 25% | 1.5 | 0.06 | 2, 3, 6, 1, 7, 13, 9, 5 |
| Third exam of continuous evaluation | 50% | 3 | 0.12 | 2, 1, 8, 11, 10, 12, 14, 5 |

Bibliography

- BREALEY, R., S.C. MYERS, F. ALLEN. **Principles of Corporate Finance**, (11th Edition). McGraw-Hill, 2013
- BIERDMAN, H. S. SMIDT. **The Capital Budgeting Decision: Economic Analysis of Investment Projects**. 9^a edició. Great Britain. Routledge
- DAMODARAN, A. **Applied Corporate Finance**. 4th. Edition. 2015. John Wiley & Sons. ISBN-13: 978-1118808931
- DAYANANDA, D., IRONS, R., HARRISON, S., HERBOHN, J. I P. ROWLAND. **Capital Budgeting Financial Appraisal of Investment Projects**. ebook Cambridge University Press. Online Publication. 2010. online ISBN: 978011753701
- ROSS, S.A.; R.W. WESTERFIELD, J. JAFFE. **Modern Financial Management**. (9th edition). Nova York: McGraw-Hill, 2009.
- SHAPIRO, A.C. **Capital Budgeting and Investment Analysis**. Prentice Hall. 2005. ISBN-13: 978-0130660909
- SHILLER, R.J. **Finance and the Good Society**, Princeton University Press, 2012