

COURSE SYLLABUS

Academic year 2010-2011

1. COURSE DESCRIPTION

Degree:	Finanzas y Contabilidad
Double Degree:	
Course:	FINANCIAL MANAGEMENT II (Dirección Financiera II – English group)
Module:	Finanzas
Department:	Dirección de Empresas
Academic Year:	2010-2011
Term:	Segundo semestre
Total Credits:	6
Year:	2º
Type of Course:	Obligatoria
Course Language:	Inglés

Teaching model:	B1	
a. General/background:		60%
b. Theory-into-practice/developmental knowledge-building		40%
c. Guided Academic Activities:		

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2. TEACHING TEAM INFORMATION

2.1. Course coordinator Francisco Javier Fernández Navas

2.2. Teachers	
Name:	TB BE ANNOUNCED
Faculty:	
Department:	
Academic Area:	
Category:	
Office hours:	
Office No.:	
E-mail:	
Tel.:	

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3. ACADEMIC CONTEXT

3.1. Course Description and Objectives

This course is the continuation of Financial Management I. The course offers an overview of financing decisions, dividend policy and the optimal capital structure of a firm.

The objective of the course is to provide the student with the appropriated framework to analyse some relatively complex problems that a financial manager needs to address in large corporations. Readings, class lectures and homework will take the student to the type of situations that a financial manager will face in practice.

The course is divided in two parts. The first one is about financing decisions in the firm and market efficiency. We define the concept of efficient markets, and we study how corporations issue securities in the capital market to obtain the funds they need. In the second part, we analyze the dividend policy of corporations, and we study whether the capital structure of the firm can increase its value. We finally analyze the interactions of investment and financing decisions.

3.2. Contribution to the Training Plan

Financial Management II is a core course in the second term of the second year of the Degree in Finance and Accounting and the third year of the Double Degree in Finance and Accounting, and Law. This is the second course that the Academic Area of Finance offers in both degrees. It provides the tools needed to develop the job of the financial manager in large corporations.

3.3. Recommendations or Prerequisites

Successful completion of Financial Management I.

Students are advised to:

- Have a good level of English
- Have at least a basic knowledge of Financial Management, Financial Accounting, Statistics, Economics and Mathematics
- Read financial newspapers

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4. SKILLS

4.1 Degree Skills Developed during this Course

GENERAL SKILLS

Instrumental Skills:

- Analysis and synthesis ability;
- Organization and planning ability;
- Problem solving skills;
- Decision making skills.

Personal Skills:

- Critical and auto-critical thinking.

Systemic Skills:

- Self-learning skills;
- Ability to adapt to new environments.

SPECIFIC SKILLS

- Understand how financing decisions are made. Be familiar with the dividend and debt ratio politics.

4.2. Module Skills Developed during this Course

MODULE-SPECIFIC SKILLS

Understand how financing decisions are made. Be familiar with the dividend and debt ratio politics.

GENERAL SKILLS

Systemic Skills:

- Self-learning skills;
- Ability to adapt to new environments.

Personal Skills:

- Critical and auto-critical thinking.

Instrumental Skills:

- Analysis and synthesis ability;
- Organization and planning ability;
- Problem solving skills;
- Decision making skills.



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Cross-Subject Skills:

- Be aware of the social responsibility implied in economic actions and business activities.

4.3. Course-specific Skills

- Be familiar with and understand the financing decision making process in a business, and its importance. Know the existing alternatives.

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5. COURSE CONTENT (COURSE TOPICS)

Topic 1: CORPORATE FINANCING AND MARKET EFFICIENCY (Chapter 14).

- 1.1 Definition of efficient market.
- 1.2 Market anomalies.
- 1.3 The six lessons of market efficiency.

Topic 2: AN OVERVIEW OF CORPORATE FINANCING (Chapter 15).

- 2.1 Historical information.
- 2.2 Common stock.
- 2.3 Preferred stock.
- 2.4 Debt.
- 2.5 Derivatives.

Topic 3: HOW CORPORATIONS ISSUE SECURITIES (Chapter 16).

- 3.1 Venture capital
- 3.2 The initial public offering (IPO).
- 3.3 General cash offers by public companies.
- 3.4 Private placements and public issues.
- 3.5 The privileged subscription or rights issue.

Topic 4: DIVIDEND POLICY (Chapter 17).

- 4.1 Different ways of paying dividends: Share repurchase.
- 4.2 Lintner's dividend model.
- 4.3 The information in dividends and share repurchase.
- 4.4 The controversy about dividend policy.
 - 4.4.1 Dividend policy in perfect capital markets.
 - 4.4.2 Stock repurchase and valuation.
 - 4.4.3 Dividends and the Modigliani-Miller model.
 - 4.4.4 Empirical evidence on dividends and taxes.

Topic 5: DEBT POLICY (Chapters 18 and 19).

- 5.1 The effect of financial leverage on the value of the firm.
 - 5.1.1 Proposition I of Modigliani-Miller.
- 5.2 The effect of leverage on stock returns.
 - 5.2.1 Proposition II of Modigliani-Miller.
- 5.3 The traditional view of debt policy.
- 5.4 Interest rate payments and corporate taxes.
- 5.5 Modigliani-Miller and taxes.
- 5.6 Costs of financial distress.
- 5.7 The pecking order of financing choices.



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Topic 6: THE COST OF CAPITAL FOR INVESTMENT PROJECTS (Chapter 9)

6.1 Risk adjusted discount rates.

6.2 Capital structure and the cost of capital: the Weighted Average Cost of Capital (WACC).

Topic 7: FINANCING AND VALUATION (Chapter 20).

6.1 The after-tax weighted-average cost of capital (WACC): Review of the assumptions.

6.2. Valuing companies: WACC versus the flow-to-equity method.

6.3 Adjusting WACC when debt ratios or business risks change.

6.4 Adjusted present value (APV).



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6. METHODOLOGY AND RESOURCES

METHODOLOGY:

- General/Background sessions (60%). 18 classes. Throughout these classes, the lecturer will explain and analyze all the basic theoretical concepts of the course.
- Practical/Developmental knowledge-building sessions (40%). 12 classes. In these classes the students will work on the solution for problems and real-life situations based on the theoretical concepts studied in the general/background sessions. There will be a series of follow-up controls of the work realized by the students in these classes.

RESOURCES:

- Classrooms;
- WebCT.

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7. ASSESSMENT

Students will be graded based on their work throughout the course, both in class and on guided assignments completed during the semester. In general, for assessment purposes, all completed activities will be taken into account. They will be weighted differently in the final assessment depending on how important and difficult they are and how much effort has been put in by the students. More precisely, the following specific tests will be carried out:

- Final exam: At the end of the semester, students will sit a written exam worth 60% of the final grade for the course. Theoretical knowledge will be evaluated through multiple choice questions and will account for 50% of the grade of the exam, while practical knowledge/skills will account for the remaining 50%. A minimum of 3.5 (out of 10) points is needed on each part to pass the exam.
- Continuous evaluation (ongoing assessment): Different activities will be carried out individually or in learning teams and will be worth a total of 40% towards the final grade for the course. In the latter case, students will be assessed on their individual work within these learning teams. The graded obtained on the continuous evaluation will be valid for all official exam periods in a given year.

The final grade of the course —on the condition that the minimums have been met— will be calculated as follows: $0.6 \times (\text{Exam grade}) + 0.4 \times (\text{Continuous Evaluation mark})$. To pass the Course, students must achieve at least 5 points (out of 10).

Students will be able to sit two exam sessions per year to pass the course. These shall follow the evaluation criteria explained before. The student will maintain the grade obtained in the continuous evaluation for both exam sessions.

Please note that:

- Those students who have not attended class sessions and/or not completed assigned tasks will be evaluated out of a maximum of 60%, thus forfeiting any chance to obtain the remaining 40%. The ongoing evaluation assessment may not be obtained in any other way than what is described above.
- No reference books or notes whatsoever will be allowed on semester or final exams. Calculators will be permitted. Students should bring photo ID to all exams for identification purposes.
- The minimum punctuation requirement is applicable to any exam of this course.

Student mobility:

Those UPO students who are not able to attend seminars due to being abroad under official mobility programs (Socrates-Erasmus, Séneca, Atlanticus...) will have an



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additional exam, or work that will be clearly defined, in order to obtain the part of the grade corresponding to the continuous evaluation. Students in this situation must inform the responsible lecturers at the beginning of the academic year, before the 31st of October, 2010.

Note: Title II. Chapter II. Article 12.2 and 14.3 of Normativa de Régimen Académico y de Evaluación del Alumnado (signed in the Consejo de Gobierno of UPO in 18 July 2006): “When doing essays or other homework, plagiarism and the use of material that is not original, included that obtained in the Internet, without having indicated explicitly the source of that information, and if that is the case, without the permission of the author, such act can lead the student to fail the module, in addition to any other academic penalisation brought about by such dishonest behaviour”.

The Director of the Department responsible of that module, once informed by the staff involved, the students affected and any other academic part required by the Direction of the Department, decide over the possibility of opening up a formal expedient of penalisation.



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8. BIBLIOGRAPHY

8.1. GENERAL READING:

COURSE TEXTBOOK:

Brealey, R.A., S.C. Myers, and F. Allen (2007): Principles of Corporate Finance, McGraw-Hill, 9th edition.

8.2. FURTHER READING:

Ross, S.A., R.W. Westerfield, and B.D. Jordan (2006): Fundamentals of Corporate Finance, McGraw-Hill, 7th edition.

Ross, S.A., R.W. Westerfield, and J. Jaffe (2005): Corporate Finance, Irwin, 7th edition.