

FIN 250: Fundamentals of Corporate Finance

Nature of the Course: Concentration
Lecture Hours: 150

Full Marks: 100
Pass Marks: 35

Course Objective

The objective of this course is to provide students an understanding of the basic concepts and theories of corporate finance and develop skills to analyze issues in corporate finance for sound financing decisions in businesses.

Course Description

This course familiarizes students the fundamentals of corporate finance and provides them required skills to analyze and manage financing aspects of business decisions. This course deals with introduction to corporate finance, financial markets and institutions, interest rates, short-term financing, common stock and investment banking process, long-term debt and preferred stock financing, capital structure and leverage, financial planning and forecasting, derivatives and risk management, multinational corporation and merger and acquisition.

Course Details

Unit 1: Introduction to Corporate Finance

LH 10

Corporate finance and financial manager; Financial manager's responsibilities; Managerial actions to maximize shareholder wealth; Corporate finance and other functional areas; The agency problem: stockholders versus managers and stockholders versus creditors; Corporate social responsibilities; and Corporate governance.

Unit 2: Financial Markets and Institutions

LH 5

The capital allocation process; Financial markets; Types of financial markets; Financial institutions; The stock market; Stock market and returns; and Stock market efficiency.

Unit 3: Interest Rate

LH 10

The cost of money; Interest rates levels; Determinants of market interest rates; Term structure of interest rates; Shape of yield curve; Using the yield curve to estimate future interest rates; Macro-economic factors influencing interest rates; and Interest rate and business decision.

Unit 4: Short-Term Financing

LH 20

Nature of short-term financing; Advantages and disadvantages; Sources of short-term financing: accruals, accounts payable (trade credit), commercial paper, short-term bank loans – line of credit, revolving credit arrangement, transaction loans; The cost of bank loan; Choosing a bank; Comparison of cost of trade credit, commercial paper and short-term bank loan; Use of security in short-term financing: inventory financing and accounts receivable financing.

Unit 5: Common Stock and Investment Banking Process

LH 15

Features of common stock; Legal rights and privileges of common stockholders; Advantages and disadvantages; The market for common stock; Methods of selling securities: public offering, rights offering and private placement; Analysis of rights offering and effect of rights offering on shareholders' wealth; and The investment banking process.

Unit 6: Long-Term Debt and Preferred Stock Financing **LH 10** Deb
disadvantages.

Unit 7: Capital Structure and Leverage **LH 10**

Capital structure and financial structure; Determining the optimal capital structure: EBIT–EPS analysis of the effect of financial leverage, EPS indifference analysis; The effect of capital structure on stock prices and the cost of capital; Capital structure and value of the firm; Operating leverage, financial leverage and total leverage.

Unit 8: Financial Planning and Forecasting **LH 15**

Strategic planning; Operating plans and the financial plan; Sales forecast; The Additional Fund Needed (AFN) Equation; Forecasted financial statements; Using regression to improve forecasts; and Analyzing the effects of changes in ratios.

Unit 9: Derivatives and Risk Management **LH 15**

Reasons for managing risk; Introduction to derivatives, Options: Option types and markets; Factors affecting the value of a call option; Exercise value versus option price; Forward and futures contracts; Other types of derivatives: swaps, structured notes, inverse floaters; Using derivatives to reduce risk; Risk management and risk management approaches.

Unit 10: Multinational Corporate Finance **LH 20**

Nature of multinational corporations; Reasons for companies going global; Multinational versus domestic financial management; Exchange rates quotations; Cross rates; Interbank foreign currency quotations; Trading in foreign exchange rates: spot rates and forward rates; Interest rate parity; Purchasing power parity; Inflation, interest rates, and exchange rates; International money and capital markets; International capital budgeting; and International capital structure.

Unit 11: Merger and Acquisition **LH 10**

Rationale for mergers; Types of mergers; Level of merger activity; Hostile versus friendly takeovers; Merger analysis; Role of investment bankers; Corporate alliances; and Private equity investments.

Project Work **LH 10**

After the completion of fourth year concentration classes the students shall have to prepare and submit a project work in the area they have specialized. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis, etc relevant to the subject within 10 lecture hours.

Basic Text

Brigham, E. F., & Houston, J. F. *Fundamentals of financial management*. Delhi: Cenage Learning.
Weston, J. F., Scott B., & Brigham, E. F. *Essentials of managerial finance*. New York: Harcourt Brace College Publishers.

References

Van Horne, J. C., & Wachowicz, J. M. *Fundamentals of financial management*. Prentice- Hall

India Ltd.

Ross, S. A., Westerfield, R. W. & Jordan, B. D. *Fundamentals of corporate finance*. New York: McGraw-Hill Irwin.

Gitman, L. J. *Principles of managerial finance*. Delhi: Pearson Education.

Paudel, R. B., Baral K. J., Gautam R. R., & Rana S. B. *Fundamentals of corporate finance*. Kathmandu: Asmita Books Publishers and Distributors.