KARACHI UNIVERSITY BUSINESS SCHOOL

UNIVERSITY OF KARACHI

BS-VII

Course Title : CORPORATE FINANCE

Course Number : BA(H) - 643

Credit Hours : 03

Course Contents:

1. The Financial Environment

- 1. The Flow of Savings to Corporations
 - The Stock Market
 - Other Financial Markets
 - Financial Intermediaries
 - Financial Institutions
 - Total Financing of U.S. Corporations
- 1.2. Functions of Financial Markets and Intermediaries
 - Transporting Cash Across Time
 - Liquidity
 - The Payment Mechanism
 - Reducing Risk
 - Information Provided to Financial Markets
 - The Opportunity Cost of Capital

2. The Time Value of Money

- 2.1 Future Values and Compound Interest
- 2.2 Present Values
- Finding the Interest Rate
- 2.3 Multiple Cash Flows
- Future Value of Multiple Cash Flows
- Present Value of Multiple cash Flows
- 2.4 Level Cash Flows Perpetuities and Annuities

- How to Value Perpetuities
- How to Value Annuities
- Annuities Due
- Future Value of an Annuity
- 2.5 Inflation and the Time Value of Money
- Real versus Nominal Cash Flows
- Inflation and Interest Rates
- Valuing Real Cash Payments
- Real or Nominal
- 2.6 Effective Annual Interest Rates

3. Valuing Bonds

- 3.1 Bond Characteristics
- Reading the Financial Pages

3.2 Bond Prices and Yields

- How Bond Prices Vary with Interest Rates
- Yield to Maturity versus Current Yield
- Rate of Return
- Interest Rate Risk
- The Yield Curve
- Normal and Real Rate of Interest
- Default Risk
- Variation in Corporate Bonds

4. Valuing Stocks

- 4.1 Stocks and Stock Market
- Reading the Stock Market Listings
- 4.2 Book Values, Liquidation Values, and Market Values
- 4.3 Valuing Common Stocks
- Today's Price and Tomorrow's Price
- The Dividend Discount Model

- 4.4 Simplifying the Dividend Discount Model
- The Dividend Discount Model with no Growth
- The Constant Growth Dividend Discount Model
- Estimating Expected Rates of Returns
- Non-constant Growth
- 4.5 Growth Stocks and Income Stocks
- The Price Earning Ratio
- Valuing Entire Businesses
- 4.6 There are No Free Lunches on Wall Street
- Method 1 : Technical Analysis
- Method 2 : Fundamental Analysis
- A Theory to Fit The Facts
- 4.7 Behavioral Finance and the Rise and Fall of the Dot.Coms
- 5. Net Present Value and Other Investment Criteria
- 5.1 Net Present Value
 - A Comment on Risk and Present Value
 - Valuing Long Live Projects
- 5.2 Other Investment Criteria
 - Payback
 - Internal Rate of Returns
 - A Closer Look and the Rate of Return Rule
 - Calculating the Rate of Return for Long Lived Projects
 - A Word of Caution
 - Some Pitfalls with the Internal Rate of Return Rule
- 5.3 Mutually Exclusive Projects
 - Investment Timing

- Long versus Short Lived Equipment
- Replacing an Old Machine
- Mutually Exclusive Projects and the IRR Rule

5.4 Capital Rationing

- Soft Rationing
- Hard Rationing
- Pitfalls of the Profitability Index

5.5 A Last Look

6. Using Discounted Cash Flow Analysis to Make Investment Decisions

6.1Discount Cash Flows, Not Profits6.2 Discount Incremental Cash Flows

- Include all Indirect Effect
- Forget Sunk Costs
- Include Opportunity Cost
- Recognize the Investment in Working Capital
- Beware of Allocated Overhead Costs
- 6.3 Discount Nominal Cash Flows by the Nominal Cost of Capital
- 6.4 Separate Investment and Financing Decisions
- 6.5 Calculating Cash Flow
 - Capital Investment
 - Investment in Working Capital
 - Cash Flow from Operations

7. Project Analysis

7.1 How Firms Organize the Investment Process

• Stage One : The Capital Budget

• Stage Two: Project Authorizations

Problems and Some Solutions

7.2 Some "What – If" Questions

- Sensitivity Analysis
- Scenario Analysis

7.3 Break Even Analysis

- Accounting Break Even Analysis
- Economic Value Added and Break Even Analysis

Operating Leverage

7.4 Real Options and the Value of Flexibility

- The Option to Expand
- A Second Real Option: The Option to Abounded
- A Third Real Option: The Timing Option
- A Fourth Real Option : Flexible Production Facilitie

8. Introduction to Risk, Return, and the Opportunity Cost of Capital

- 8.1 Rate of Return: A Review
- 8.2 A Century of Capital Market History
 - Market Indexes
 - The Historical Record
 - Using Historical Evidence to estimate Today's Cost of Capital

8.3 Measuring Risk

- Variance and Standard Deviation
- A Note on Calculating Variance
- Measuring the variance in Stock Return

8.4 Risk and Diversification

- Diversification
- Asset versus Portfolio Risk
- Market Risk versus Unique Risk

8.5 Thinking about Risk

- Message 1 : Some Risk look Big and Dangerous but Really are Diversifiable
- Message 2 : Market Risk are Macro Risks
- Message 3 : Risk can be Measure

9. Risk, Return and Capital Budgeting

9.1 Measuring Market Risk

- Measuring Beta
- Betas for Amazon.com and Exxon Mobile
- Portfolio Betas

9.2 Risk and Return

- Why the CAPM works
- The Security Market Line
- How Well does the CAPM work?
- Using the CAPM to estimated expected Return

9.3 Capital Budgeting and Project Risk

- Company versus Project Risk
- Determinant of Project Risk
- Don't add Fudge Factors to Discount Rates

10. The Cost of Capital

- 10.1 Geothermal Cost of Capital
- 10.2 The Weighted-Average Cost of Capital
 - Calculating Company Cost of Capital as a Weighted Average
 - Market versus Book Weights
 - Taxes and the Weighted-Average Costs of Capital
 - What If There Are Three (or More) Sources of Financing?
 - Wrapping up Geothermal
 - Checking our Logic

10.3 Measuring Capital Structure

- 10.4 Calculating the Required Rate of Returns
 - The Expected Return on Bonds
 - The Expected Return on Common Stock
 - The Expected Return on Preferred Stock

10.5 Calculating the Weighted Average Cost of Capital

• Real Company WACCs

10.6 Interpreting the Weighted Average Cost of Capital

- When You Can and Can't Use WACC
- Some Common Mistakes
- How Changing Capital Structure Affects Expected Returns
- What happens When the Corporate Tax Rate Is Not Zero

11. An Overview of Corporate Financing

- 11.1 Creating Value with Financing Decisions
- 11.2 Common Stock
 - Ownership of the Corporation
 - Voting Procedures
 - Classes of Stock
- 11.3 Preferred Stocks
- 11.4 Corporate Debt
 - Debt Comes in Many Forms
 - Innovation in the Debt Market

12 Debt Policy

- 12.1 How Borrowing Affects Values in a Tax Free Economy
 - MM's Argument
 - How Borrowing Affects Earnings Per Share
 - How Borrowing Affects Risk and Return
 - Debt and the Cost of Equity

12.2 Capital Structure and Corporate Taxes

- Debt and Taxes of River Cruises
- How Interest Tax Shields Contribute to the Value of Stockholders' Equity
- Corporate Taxes and the Weighted Average Cost of Capital
- The implications of Corporate Taxes for Capital Structure

12.3 Costs of Financial Distress

- Bankruptcy Costs
- Financial Distress without Bankruptcy
- Cost of Distress Vary with Type of Asset

12.4 Explaining Financing Choices

- The Trade-off Theory
- A Pecking Order Theory
- The Two Forces of Financial Stock

13 Dividend Policies

13.1 How Dividends are paid

- Cash Dividends
- Some Legal Limitations on Dividends
- Stock Dividends and Stock Splits

13.2 Share Repurchase

- The Role of Share Repurchases
- Repurchases and Share Valuation

13.3 How Do Companies Decide on Dividend Payments?

- 13.4 Why Dividend Policy Should Not Matter
 - Dividends Policy is Irrelevant in Competitive Markets
 - The Assumptions behind Dividend Irrelevance

13.5 Why Dividends May Increase Firm Value

- Market Imperfections
- Dividends as Signals

13.6 Why Dividends May reduce Firm Value

- Why Pay any Dividends at All?
- Taxation of Dividends and Capital Gains under Current Tax Law

14 Financial Planning

14.1 What is Financial Planning

- Financial Planning Focuses on the Big Picture
- Why Build Financial Plans?

14.2 Financial Planning Models

- Components of a Financial Planning Model
- An example of a Planning Model

• An Improved Model

14.3 Planners Beware

- Pitfalls in Model Design
- The Assumption in Percentage of Sales Models
- The Role of Financial Planning Models
- 15. Working Capital Management and Short-Term Planning
- 16. Cash and Inventory Management
- 17. Credit Management and Bankruptcy

Recommended Books:

• Brealey Myers Marcus: Fundamentals of Corporate Finance 4th Edition Irwin Mc-Graw Hill

