

Ministry of Education

University of Economics Ho Chi Minh City

Undergraduate Degree

Course: Finance-Banking

Minor course: Corporate Finance

Course Syllabus

Course name: Corporate Finance

Course Description

This course provides an introduction to the theory, the methods, and the concerns of corporate finance. It forms the foundation for all subsequent courses such as speculative markets, investments and corporate finance. The purpose of this course is to develop a framework for analyzing a firm's investment and financing decisions. Since the emphasis is on the fundamental concepts underlying modern corporate finance, the approach will be analytical and rigorous, and some familiarity with accounting, mathematical, and statistical tools are advantageous.

Course Objectives:

- Gain an understanding of financial markets and processes
- Learn techniques for determining the intrinsic value of securities
- Discover the complex interaction between the economy and the financial markets
- Become comfortable engaging in discussion and debate over finance and related issues

PART I Introduction

Chapter 1 The Corporation

1.1 The Four Types of Firms

Sole Proprietorships

Partnerships

Limited Liability Companies

Corporations

Tax Implications for Corporate Entities

1.2 Ownership Versus Control of Corporations

The Corporate Management Team

Ownership and Control of Corporations

Shareholder Activism and Voting Rights

1.3 The Stock Market

Chapter 2 Introduction to Financial Statement Analysis

2.1 The Disclosure of Financial Information

Preparation of Financial Statements
International Financial Reporting Standards
Types of Financial Statements
2.2 The Balance Sheet
Assets
Liabilities
Stockholders' Equity
Balance Sheet Analysis
2.3 The Income Statement
Earnings Calculations
Income Statement Analysis
Common Mistake Mismatched Ratios
2.4 The Statement of Cash Flows
Operating Activity
Investment Activity
Financing Activity
2.5 Other Financial Statement Information
Management Discussion and Analysis
Statement of Stockholders' Equity
Notes to the Financial Statements

Chapter 3 Financial Decision Making

3.1 Valuing Costs and Benefits
Using Market Prices to Determine Cash Values
When Competitive Market Prices Are Not Available
3.2 Interest Rates and the Time Value of Money
The Time Value of Money
The Interest Rate: An Exchange Rate Across Time
3.3 Present Value and the NVP Decision Rule
Net Present Value
The NVP Decision Rule
NVP and Individual Preferences
 Further Reading
 Problems

PART II Tools

Chapter 4 The Time Value of Money

4.1 The Timeline
4.2 The Three Rules of Time Travel
Comparing and Combining Values
Moving Cash Flows Forward in Time
Moving Cash Flows Back in Time
Applying the Rules of Time Travel
4.3 The Power of Compounding: An Application
4.4 Valuing a Stream of Cash Flows
4.5 The Net Present Value of a Stream of Cash Flows
4.6 Perpetuities, Annuities, and Other Special Cases
Perpetuities
Historical Examples of Perpetuities

Common Mistake Discounting One Too Many Times
Annuities
Growing Cash Flows
4.7 Solving Problems with a Spreadsheet Program
4.8 Solving for Variables Other Than Present Value or Future Value
Solving for the Cash Flows
Internal Rate of Return
Solving for the Number of Periods
Common Mistake Excel's NVP and IRR Functions

Chapter 5 Interest Rates

5.1 Interest Rate Quotes and Adjustments
The Effective Annual Rate
Adjusting the Discount Rate to Different Time Periods
Annual Percentage Rates
Application: Discount Rates and Loans
5.2 The Determinants of Interest Rates
Inflation and Real Versus Nominal Rates
Investment and Interest Rate Policy
The Yield Curve and Discount Rates
Common Mistake Using the Annuity Formula When Discount Rates Vary

Chapter 6 Investment Decision Rules

6.1 NVP and Stand-Alone Projects
NVP Rule
Measuring Sensitivity with IRR
Alternative Rule versus NVP Rule
6.2 Alternative Decision Rules
The Payback Rule
The Internal Rate of Return Rule
Economic Profit or EVA
6.3 Mutually Exclusive Investment Opportunities
Differences in Scale
Timing of the Cash Flows
Incremental IRR Rule
6.4 Project Selection with Resource Constraints
Evaluation of Projects with Different Resource Requirements
Profitability Index
Shortcomings of the Profitability Index

PART III Basic Valuation

Chapter 7 Fundamentals of Capital Budgeting

7.1 Forecasting Earnings
Revenue and Cost Estimates
Incremental Earnings Forecast
Indirect Effects on Incremental Earnings
The Opportunity Cost of an Idle Asset
Sunk Costs and Incremental Earnings

Common Mistake The Opportunity of an Idle Asset
Real-World Complexities
The Sunk Cost Fallacy
7.2 Determining Free Cash Flow and NVP
Calculating the Free Cash Flow from Earnings
Calculating Free Cash Flow Directly
Calculating the NVP
Choosing Among Alternatives
Further Adjustments to Free Cash Flow
7.3 Analyzing the Project
Break-Even Analysis
Sensitivity Analysis
Scenario Analysis

Chapter 8 Valuing Stocks

8.1 Stock Prices, Returns, and the Investment Horizon
A One-Year Investor
Dividend Yields, Capital Gains, and Total Returns
A Multiyear Investor
8.2 The Dividend-Discount Model
Constant Dividend Growth
Dividends Versus Investment and Growth
Changing Growth Rates
Limitations of the Dividend-Discount Model

8.3 Total Payout and Free Cash Flow Valuation Models
Share Repurchases and the Total Payout Model
The Discounted Free Cash Flow Model
8.4 Valuation Based on Comparable Firms
Valuation Multiples
Limitations of Multiples
Comparison with Discounted Cash Flow Methods
Stock Valuation Techniques: The Final Word
8.5 Information, Competition, and Stock Prices
Information in Stock Prices
Competition and Efficient Markets
Lessons for Investors and Corporate Managers
The Efficient Markets Hypothesis Versus No Arbitrage

PART IV Risk and Return

Chapter 9 Capital Markets and the Pricing of Risk

9.1 A First Look at Risk and Return
9.2 Common Measures of Risk and Return
Probability Distributions
Expected Return
Variance and Standard Deviation
9.3 Historical Returns of Stocks and Bonds
Computing Historical Returns

Average Annual Returns
The Variance and Volatility of Returns
Using Past Returns to Predict the Future: Estimation Error
Arithmetic Average Returns Versus Compound Annual Returns
9.4 The Historical Tradeoff between Risk and Return
The Returns of Large Portfolios
The Returns of Individual Stocks
9.5 Common Versus Independent Risk
9.6 Diversification in Stock Portfolios
Firm-Specific Versus Systematic Risk
No Arbitrage and the Risk Premium
Common Mistake A Fallacy of Long-Run Diversification
9.7 Estimating the Expected Return
Measuring Systematic Risk
Estimating the Risk Premium
9.8 Risk and the Cost of Capital
9.9 Capital Market Efficiency
Notions of Efficiency
Empirical Evidence on Capital Market Competition

Chapter 10 The Capital Asset Pricing Model

10.1 The Efficiency of the Market Portfolio
The CAPM Assumptions
Security Demand Must Equal Supply
Optimal Investing: The Capital Market Line
10.2 Determining the Risk Premium
Market Risk and Beta
The Security Market Line
Summary of the Capital Asset Pricing Model
10.3 The Market Portfolio
Value-Weighted Portfolios
Common Stock Market Indexes
10.4 Determining Beta
Estimating Beta from Historical Returns
Why Not Estimate Expected Returns Directly?
Using Linear Regression
10.5 Extending the CAPM
Investor Information and Rational Expectations
10.6 The CAPM in Practice
Forecasting Beta
The Security Market Line
Evidence Regarding the CAPM
Nobel Prize William Sharpe on the CAPM
The Bottom Line on the CAPM

PART V Capital Structure

Chapter 11 Capital Structure in a Perfect Market

11.1 Equity Versus Debt Financing
Financing a Firm with Equity

Financing a Firm with Debt and Equity
Effect of Leverage on Risk and Return
11.2 Modigliani-Miller I: Leverage, Arbitrage, and Firm Value
MM and the Law of One Price
MM and the Real World
Homemade Lemonade
The Market Value Balance Sheet
Application: A Leveraged Recapitalization
11.3 Modigliani -Miller II: Leverage, Risk, and the Cost of Capital
Leverage and the Equity Cost of Capital
Capital Budgeting and the Weighted Average Cost of Capital
Common Mistake Is Debt Better Than Equity?
Levered and Unlevered Betas
Cash and Net Debt
11.4 Capital Structure Fallacies
Leverage and Earnings per Share
Equity and Dilution
14.5MM: Beyond the Propositions
Nobel Prize Franco Modigliani and Merton Miller

Chapter 12 Debt and Taxes

12.1 The Interest Tax Deduction
12.2 Valuing the Interest Tax Shield
The Interest Tax Shield and Firm Value
The Interest Tax Shield with Permanent Debt
Pizza and Taxes
The Weighted Average Cost of Capital with Taxes
12.3 Recapitalizing to Capture the Tax Shield
The Tax Benefit
The Share Repurchase
No Arbitrage Pricing
Analyzing the Recap: The Market Value Balance Sheet
12.4 Personal Taxes
Including Personal Taxes in the Interest Tax Shield
Valuing the Interest Tax Shield with Personal Taxes
Determining the Actual Tax Advantage of Debt
Cutting the Dividend Tax Rate
12.5 Optimal Capital Structure with Taxes
Do Firms Prefer Debt?
Limits to the Tax Benefit of Debt
Growth and Debt
Other Tax Shields
The Low Leverage Puzzle
Employee Stock Options
12. The Cost of Bankruptcy and Financial Distress
The Bankruptcy Code
Direct Costs of Bankruptcy
Indirect Costs of Financial Distress
12.7 Financial Distress Costs and Firm Values
The Impact of Financial Distress Costs
Who Pays for Financial Distress Costs?

12.8 Optimal Capital Structure: The Tradeoff Theory
Determinants of the Present Value of Distress Costs
Optimal Leverage

12.9 Exploiting Debt Holders: The Agency Costs of Leverage
Over-investment
Under-investment
Cashing Out
Agency Costs and the Value of Leverage
Debt Maturity and Covenants

12.10 Motivating Managers: The Agency Benefits of Leverage
Concentration of Ownership
Reduction of Wasteful Investment
Leverage and Commitment

12.11 Agency Costs and the Tradeoff Theory
The Optimal Debt Level
Debt Levels in Practice

12.12 Asymmetrical Information and Capital Structure
Leverage as a Credible Signal
Issuing Equity and Adverse Selection

Chapter 17 Payout Policy

12.1 Distributions to Shareholders
Dividends
Share Repurchases

12.2 Comparison of Dividends and Share Repurchases
Alternative Policy 1: Pay Dividend with Excess Cash
Alternative Policy 2: Share Repurchase (No Dividend)
Common Mistake Repurchases and the Supply of Shares
Alternative Policy 3: High Dividend (Equity Issue)
Modigliani-Miller and the Dividend Policy Irrelevance
Common Mistake The Bird in Hand Fallacy
Dividend Policy with Perfect Capital Markets

12.3 The Tax Disadvantage of Dividends
Taxes on Dividends and Capital Gains
Optimal Dividend Policy with Taxes

12.4 Dividend Capture and Tax Clienteles
The Effective Dividend Tax Rate
Tax Differences Across Investors
Clientele Effects

12.5 Payout Versus Retention of Cash
Retaining Cash with Perfect Capital Markets
Taxes and Cash Retention
Adjusting for Investor Taxes
Issuance and Agency Costs

12.6 Signaling with Payout Policy
Dividend Smoothing
Dividend Signaling
Signaling and Share Repurchases

12.7 Stock Dividends, Splits, and Spin-offs
Stock Dividends and Splits
Spin-offs