Module Guide

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Corporate Finance

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Module Introduction

Corporate finance is concerned with the management of firm's financial resources to achieve its economic objectives. This module is an introduction to the study of the principles of corporate finance and their application to the usual financial issues and decision-making of business enterprises.
The module intends to:

- Developing the students' understanding of corporate finance theory and its application to financing and investment decisions undertaken by managers.
- Providing an understanding of corporate finance and the linkages between corporate strategic and financial decisions, firm value, and equity value
- Contributing to understanding the financial market environment in which companies operate, looking at both corporate investment and the financing of such investment

Students will supplement class teaching with summative and formative assessments. By the end of the module, students will be familiar with financial vocabulary, understand aspects of financial theory, and appreciate the underlying financial mind-set as well as incentives involved when solving problems of finance, will learn how to determine risk and make financial decisions, and how to value an investment as a potential financial opportunity for the business.

Learning and Teaching Methods:
The list of activities summarizes the learning and teaching methods that will be used within the module, ensuring an inclusive approach that enables all students to demonstrate achievement of the intended learning outcomes

- Lectures / Video sessions;
- Independent study and readings;
- Case studies;
- Individual work;
- Group work;
- Practical session;
- Group problem-solving;
- Direct question and response

Total study hours:

- In-class: 36 hour of class lectures, 21 hours of formative assessments, and 14 hours of summative assessments
- Online: 18-30min video sessions, 4-1 hour live sessions, 21 hours of formative assessments, and 14 hours of summative assessments

Assessment:
Students will be expected to complete as part of the module section the formative and summative assessments:

Formative assessment will be carried out in order to identify achievements, reinforce themes and / or identify difficulties of the students during the teaching-learning process. Formative assessments are beneficial for the students since it makes them conscious and active in the process of their own training, by checking their progress and correcting their mistakes, promoting more efficient learning and permanent. In addition, it is productive for the professor since it allows know each member of the group, and if necessary, make the adjustments in the

teaching methods during the development of the program, in terms of activities and resources. This type of evaluation will be carried out according to the following, but not limited activities: Feedback on individual interventions / participations, feedback from the group process, or discussion of the practical sessions carried out.
Formative assessments covers 21 hours in four (4) case studies, and four (4) group report formative submissions. Details, specifications, and marking are available in the Formative Assessment Guidelines. Prefinal grade is based on the Formative Assessment activities, and it is not a part of a module final grade. Students should have more than 50 points of the prefinal grade to be allowed to submit summative assessment activities

Summative evaluation will be carried out at the end of the course and is executed with the purpose of verifying if the objectives were achieved and to what extent they were achieved by the students. In addition, it allows the professor to know exactly the quantification of learning, which represents useful information to improve performance in later drives. This type of evaluation allows assigning a numerical grade to the performance demonstrated by the student and will be recorded cumulatively to obtain the final grade for the subject.
Summative assessment requires 14-hour dedication to two assessments:

- Assessment 1: An Individual Case Study
- Assessment 2: A Group Report with an oral component. Details, guidelines, and rubric are available in the module syllabus and in the Summative Assessment Guidelines.

Summative assessment represents module’s final grade.

Unit 1: Overview of Corporate Finance

1.1 The Concept of Corporate Finance

Introduction to the subject of Corporate Finance as the area of finance that relates to how corporations deal with funding sources, the actions management takes to increase income, and therefore value of a firm. Corporate finance departments are in charge of governing and overseeing their firms' financial activities and capital investment decisions.

The primary goal of corporate finance is to maximize shareholder value thru long and short term financial planning and strategies previously determined by the business owners or the firm's senior management.

1.2 The Purpose of Finance in Business

Overview and importance of the finance manager and the financial department in a business, and their contribution to the firm's success. Provide tools and information to support businesses to make effective and efficient decisions like financial planning, advise on proposals for investment decisions, efficiently managing of liabilities, assets and capital investments of the business, perform financial monitoring & control of the data including the right tools and techniques for monitoring, assess the business financial risk management threats and offer solutions. They have the responsibility to fundamental question:

From the stockholders' point of view, what is a good financial management decision?

1.3 Corporate Finance Activities

In general, the main areas of concern for corporate finance should deal with elements of:

a. Capital Budgeting or invested capital: What long-term investments should the firm take?

b. Capital structure and efficient cost of capital: Where will the firm get the long-term financing to pay for its investments? In addition to the ideal mixture of debt and equity the business should it used for funding

c. Working capital management or operating flows: How should the firm manage its everyday financial activities?

d. Dividend policy or return on invested capital, explain the general concept of dividend and the dividend payment vs retained earnings

1.4 The Corporate Firm

The lesson describes the four main types of business organizations: Sole Proprietorship, Partnership, Limited Liability Company, and Corporation with special focus in the corporation.

In addition, it explains the benefits and trade-off of each type of firm with special emphasis in the firms' type vs business control and decision-making.

1.5 The Role and Goals of the Finance Manager in a Corporation

The unit refreshes the definition and importance of the financial manager for a business, and describe some of the specific objective from their investment, financing, and managing the firm's cash flows decisions.

Also, it relates the discussion to the ultimate goal of For-Profit private businesses: to maximize the current value per share of the existing common stock (briefly describe the concept of common stock). The idea is supported by few examples of goals related to profitability like maximizing profits by minimizing production costs thru efficient raw materials purchases.

The main discussion will be centred in the explanation with substantial detail of the long-term decisions finance manager's face: investment, financing, and return on capital decision and the main factors affecting those decisions with examples like the cost of debt, or loss of business control.

The lesson also comments the financial manager short-term working capital decision making like the cash balance or inventory in stock. These topics will be developed in depth in future lessons.

1.6 The Agency Problem

The agency relationships is explained including the challenges that corporations with large number of stakeholder has, particularly on the opportunities that finance and other senior managers have of not acting the best interests of the stockholders by taking actions that do not increase the value of the stock due to this conflict of interest. The lesson describes the types of agency problems, and some of the actions to mitigate them with special focus on the principal-agent problem within corporations. There is a reading about the Enron's demise caused mainly by management hiding losses from shareholders and the general public through accounting tricks.

There are other relevant agency problem cases in the lesson PPT with the links for further discussion and class debate.

1.7 Learning Summary

The lesson introduced some of the concept, roles, and responsibilities in corporate finance.

Corporate finance has main areas of concern for the business:

a. Capital budgeting
b. Capital structure
c. Working capital management
d. Dividend Policy

The goal of financial management in a for-profit t business is to make decisions that increase the value of the stock or increase the market value of the equity. The corporate form of organization is superior to other forms when it comes to raising money and transferring ownership interests, but it has the significant disadvantage of double taxation.

There is the possibility of conflicts between stockholders and management in a large corporation called agency problems and discussed how they might be controlled and reduced.

1.8 Review Questions

1. What are the types of financial management decisions? For each type of decision, give an example of a business transaction that would be relevant.
2. What is the primary disadvantage of the corporate form of organization? Name at least two advantages of corporate organization.
3. What goal should always motivate the actions of a firm's financial manager?
4. Who owns a corporation? What is the main reason that an agency relationship exists in the corporate form of organization? In this context, what kinds of problems can arise?

Unit 2: The role of Financial Information for Decision Making - Understanding the Business from its Financial Statements

2.1 The Annual Report: The Four Financial Statements

In this lesson, we discuss and examine the essential concepts of financial statements available in the annual report. Our emphasis is not on preparing financial statements; instead, we recognize that financial statements are a key source of information for financial decisions.

The goal is to describe and examine each of the four financial statements: balance sheet, income statement, statement of cash flows, and statement of changes in equity spending a substantial amount of time with the balance sheet and income statement, then lesser time with the statement of cash flows, and the least with the statement of changes in equity.

Each of the reports is based in a particular cut-off date, has a specific purpose and use particular components like the income statements serves as measure of how operations are running - the business performance, and the most important components are the lines of revenues, expenses and net profit/loss.

The student should understand the basics about the importance of analysing the business results by comparing results among periods.

2.2 Interpreting the Business Financial Performance: Connection between the financial statements

The goal of this section is to expand the students' understanding of the uses of financial statement information. For this section advancement, the student must have a good working knowledge of financial statements discussed in the previous segment because such statements, and numbers derived from those statements, are the primary means of communicating financial information both within and outside the firm.

Much of the language of corporate finance is based in the ideas discussed in this lesson.

There are many different ways of using financial statement information and many different types of end-users. This diversity reflects the fact that financial statement information plays an important part in many types of decisions. The module should explain the concept of financial statement analysis, the importance for business success, and some of the tools available for analysis like common-sized analysis and ratio analysis.

2.3 Learning Summary

Financial statements are accounting reports that businesses issues periodically to assess and describe its past performance. Investors, financial analysist, managers, creditors and other interest parties rely on financial statement information to obtain reliable data about the business, and the four financial statements available in the business annual report are the balance sheet, the income statement, the statement of cash flows, and the statement of changes in equity.

The balance sheet shows the current financial position in terms of the business assets, liabilities, and stockholder's equity in a particular point in time, and the two sides of the report must balance: assets = liabilities + stockholder's equity.

The income statement reports the firm's revenues and expenses, and computes the business bottom-line: net income/net loss for a particular period. The statement of cash flows reports the sources and uses of cash in a given period from operations, investing and financing activities.

The statement of changes in equity explains the changes in a company's share capital, accumulated reserves and retained earnings over the reporting period.

The use of combined financial statement calculations and analysis allows managers and other interested parties to compare the business performance over time and compare the performance of the firm with similar businesses.

2.4 Review Questions

1. Choose a public corporation of your preference (example AMAZON.Com, Inc.):
   a. Briefly state the line of business within which your business operates, and identify two major competitors
   b. Find the chosen business 2020 annual report, and look for the business results for the year-end 2020?
      - Balance sheet Assets = Liabilities + Stockholders' equity
      - Income statement - net income/loss
      - Statement of cash flows – cash increase o decreased.
2. Suppose a company's operating cash flow has been negative for several years running. Is this necessarily a bad sign?
3. Building a Balance Sheet: Penguin Pucks, Inc. provided the selected data for Nov 30th, 2020: current assets of $5,100, fixed assets of $23,800, current liabilities of $4,300, and long-term debt of $7,400. What is the value of the shareholders' equity account for this firm?
4. Building an Income Statement Papa Roach Exterminators, Inc. in 2020 has sales of $586,000, costs of $247,000, depreciation expense of $43,000, interest expense of $32,000, and a tax rate of 35%. What is the net income/loss for this firm?

Unit 3: The Role of Financial Information for Decision Making: Understanding the Business from its Financial Statement

3.1 Interpreting the Business Financial Performance: Connection between Financial Statements

The lesson begins with a solid and clear definition of ratios.
Ratios convert and standardize information available in the financial statements into formats that facilitate the evaluation of a firm's financial condition and performance, both over time, and in comparison with industry competitors.
Provide real business examples of industry competitors like for Netflix's biggest competitors are Amazon Prime Videos, Hulu or Disney+.
In addition, it introduces the student to other tools available for analysis a business financial condition business like the common-sized analysis, but this lesson is about learning about the uses of financial ratios for business analysis.

3.1.1 Financial Ratios

Financial ratios standardize the data available in the financial statements, and provides to the business valuable information to analyse the performance. The most common analysis includes comparing multiple period's financial results, and comparing the business performance with similar businesses called the industry or competitors.
Results are important for management, and other stakeholders for leading to actions and strategies to improve results for business sustainability.
Financial ratios major categories are: Liquidity Ratios, Activity Ratios, Debt Ratios, Profitability Ratios, and Market Ratios.
The lesson covers what is considered the most used ratios in the business for each category, end-user, or interest party. Explain that creditors or bankers, could be more interested in debt ratios, and potential new investors in market ratios to evaluate to evaluate if their future investment makes sense, or there better opportunities with other businesses within the same industry like invest in Apple instead of Samsung, if numbers do not me the investor's needs.

The unit describes, in detail, each ratio category, the purpose, the end-user, and some of the most widely used ratios for each category, and the formula with the examples provided in the lesson.

- Liquidity ratios that measure whether there will be enough cash to pay vendors and creditors of the company.
- Activity or Operating Efficiency ratios also called turnover ratios explains the level of effectiveness and efficiency with which the business is using its assets in order to generate sales, revenue, and cash.
- Debt or Leverage ratios measures how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.
- Profitability ratios that show a company's overall efficiency in using its assets and performance at the end of each period. Explain that profitability ratios can be expressed in margin and return ratios, depending of the end user, and business need, and
- Market Value ratios evaluates the economic status of companies and can play a role in identifying stocks that may be overvalued, undervalued, or priced fairly, and trends

3.1.2 Industry-Specific Ratio and Analysis

Businesses could have a broader and holistic analysis approach by using other ratios (other than financial) like industry-specific ratios.
Industry specific ratio are useful only in a specific industry and hence calculated for analysing entities in that industry only. The lesson provides some examples like: Occupancy ratio for hoteling industry, capital adequacy ratio for banks, or sale per square foot for floor retail businesses.

3.2 Learning Summary

Financial ratio analysis is the technique of comparing the relationship between two or more items of financial data from a company's financial statements. It is mainly used as a way of making fair comparisons across time and between different companies or industries.
The five major financial ratio categories that you can compare your business are liquidity, activity, market value, debt, and profitability ratios. In addition, there are other non-financial ratios that can competent the study like ratios for the particular industry the business operates for example occupancy ratio for the hospitality industry.
Ratios are a valuable resource for analysis but also has limitation like that the information is based in past performance only so there is little to correct in the present, and it is a quantitative analysis rather than qualitative - does not address certain factors that can impact the business results like the quality of their management. Interest party should not only rely on financial ratios and research other sources like suppliers, or competitors' financial statements.
Some of the steps to follow when analysing the business financial situation thru financial statement analysis are:

1. Establish the objectives of the analysis
2. Study the industry in which firm operates and relate industry climate to current and projected economic developments
3. Develop knowledge of the firm and the quality of management
4. Evaluate financial statements by using key financial ratios, and comparison with industry competitors. The recommended coverage is short-term liquidity, operating efficiency, capital structure and long-term solvency, profitability, and market ratios.
5. Summarize findings based on analysis and reach conclusions about firm relevant to the established objectives.

3.3 Review Questions

1. Explain how the credit analyst's focus will differ from the investment analyst's focus.
2. What is financial ratio analysis, and name some of the limitations of financial ratios?
3. What do liquidity, Activity, Leverage, Profitability, and market ratios measures?
4. What is the difference between financial ratio analysis and industry-specific ratio analysis?

Unit 4: Case Study: Financial Statement Analysis for Decision Making

4.1 Practical Exercise: Fundamental and Financial Analysis for Business Decisions in a Corporation – Industry Analysis

The purpose of this lesson is expose the student to working with financial statements, to putting into practice the concepts, practice ratio calculations, and to finally come with the full analysis, and the conclusion of a business financial situation.
The lesson analyses a case, the real corporation AVIS BUDGET GROUP by using fictional numbers to assess the business financial condition in addition to learning the concept of fundamental analysis and the importance of the data for business decisions.
The lesson discusses the factors to evaluate a business growth potential, and assess the market expectations. We will reinforce with examples the concept of “the industry” (not to be confused with industry-specific ratios). The case begins by identifying the general industry – Global Tourism until we reach the automotive rental, which our studied business category falls.
The first analysis involves analysing business performance with the industry by comparing major variations in important accounts (highlighted in the PPT), and then ratio calculation and comparison within the industry. The last slide provides the general findings and conclusions.
It is important that the students understand that there must be a solid and fact based conclusion with their analysis. In addition, it includes the investor’s rationale in terms of investment: would the investor put money in the business?

4.2 Learning Summary

The best way to understand financial statement analysis and business health situation is thru a holistic view via case study. In addition, the student learned the concept and the importance of fundamental analysis.
Fundamental analysis explores the company's financial statements to extract its profit and growth potential, relative riskiness, and to decide, if its shares are over, undervalued in the market or it is a good investment.
The case guides the student thru a business in the automotive rental industry, and compares the 2020 performance with their peers by using ratio analysis.
The conclusion is that the industry provides the investor more ROE, and it is more profitable in all the stages.

4.3 Review Questions

1. Define the concept of Fundamental Analysis and critically explain the important for the investors in their decision making process.
2. Define Industry Ratios, and it uses for business performance

Unit 5: Long-Term Financial Planning and Growth for Business Sustainability

5.1 The Long-Term concept in Financial Planning and Decision Making

The lesson focus in the importance of long term planning for business growth and therefore its sustainability (in terms of business survival not in the ecological terms). In addition, it is important to outline what criteria involves LTP and the fact that more resources are needed and these resources are less flexible for changes.
The material explains the items that a good long-term plan should include like for example the appropriate funding.

5.2 The Importance of Long-Term Financial Planning for Businesses – Corporate Finance Perspective

The idea is focus in term of financial planning by explaining the concept or long-term plan, and importance, and the main differences with short-term planning focused in a business. In addition, it is important to outline the fact that more resources are needed and these resources are less flexible for changes.
It is important for the class to understand the complexity for businesses to build a long term plan, the amount of resources required, and the factors to considerate when building the plan.

5.3 Sustainable and Internal Growth Rates

The unit start with the idea that business can grow by using their own resources or using external funding. The Internal growth rate is a formula for calculating maximum growth rate that a firm can achieve without resorting to external financing, essentially the growth that a firm can supply by reinvesting its earnings. The drivers of the growth are payout ratio, and retention rate.

$$IGR = ROA * r / (1 - ROA * r)$$

ROA=Return of Assets
r= retention rate
Sustainable growth is the percentage of increase in sales that is consistent with a defined financial policy, or such as target debt to equity ratio, target dividend payout ratio, target profit margin, or target ratio of total assets to net sales, and it is close associated with the business life cycle.

$$SGR = ROE * r / (1 - ROE * r)$$

ROE=Return of Equity
r= retention rate
The lesson has a business Case: BigBowBaby with some data for sustainability growth calculations. It is important for students to understand the impact of external funding for business grow and to stay competitive.

5.4 Building a Business Long-Term Financial Plan Goals: Considerations

The idea is to generate awareness in the importance of generating an optimal long-term financial plan to prevent or anticipate future challenges
Some of the factors business have to consider when building a long-term plan includes: the total capital, an assessment exercise to make the best decision possible in investing in the right projects according to the long-term business strategy, and provide managers the resources to come with the right capital mix: bonds, equity, bank loan, or retained earnings.
In addition, a comprehensive long-term financial plan must include, but is not limited to Time Horizon, Dimension/Scope, Control and Monitoring, Internal and external analysis of the financial environment for the business, Visibility, and a strict monitoring and detailed as to where the funds go, and how they are returned

5.5 Learning Summary

The lesson starts with the concept of long-term financial planning and its importance as a guide or route to sustainability, and the proper financial planning factors in place (objectives, resources) so managers do not have to worry about unforeseen circumstances and achieve the business long-term business goals. The business can decide to grow with its own resources and with other resources, and each decision has financial impact within the business.
Internal growth rate is a formula for calculating maximum growth rate that a firm can achieve without resorting to external financing. It is essentially the growth that a firm can supply by reinvesting its earnings. This can be described as (retained earnings)/(total assets), or conceptually as the total amount of internal capital available compared to the current size of the organization.
The lesson explains how to compute the internal growth rate by dividing net income by the amount of total assets (or finding return on assets) and subtracting the rate of earnings retention.
Sustainable growth is defined as the annual percentage of increase in sales that is consistent with a defined financial policy, or such as target debt to equity ratio, target dividend payout ratio, target profit margin, or target ratio of total assets to net sales.
Formulas are:

$$IGR = ROA * r / (1 - ROA * r)$$

$$SGR = ROE * r / (1 - ROE * r)$$

The lesson concludes with some son the most important considerations to build a long-term financial plan like visibility thru management, time scope, or a superior control and monitoring framework for success.

5.6 Review Questions

1. Define the concept of Long-term Financial Planning, and explain the importance for businesses sustainability
2. Describe the concepts of internal growth and external growth rates, and explain the difference.

Unit 6: - Valuation: The Value of the Money in Time: Time Value of Money TVM – Present Value, and Future Value of Cash Flows

6.1 TVM – Definition, Elements, and Formula

This is a key, and one of the most important lessons since it is the first exposure for the student to the relevance of concept of cash flows and sensitivity of a decision within the concept of the time value of money (TMV).
Time value of money (TVM**)** is a financial concept that states that money that is available now is worth more than the same amount in the future, due to its potential earning capacity. Also, the use of the discount rate for these calculations - Investors and businesses has choices based in that calculation. The lesson has a numerical example that describes the basic impact of the return rate when evaluation financial opportunities and make the optimal decision for the business.

6.2 The concept of TVM and PV, NPV, and Risk

In subunit offers some other TMV concepts like PV and NPV with some calculations for investment opportunities, including some numerical examples. The basic concept of

risk-return is explained: an investment carrying higher risk (risk will be covered in a new chapter) might want to provide higher returns to find investors.
There is a percentage of uncertainty regarding the profitability of a project, and if the cash flows are not certain, the calculation of NPV is wrong. Also not all investments are equally risky, and investors could achieve the same cash flow with other investment opportunities with similar returns like government bonds. Formulas are provided for single and multiple cash flows investments.

6.3 The importance of the TVM for Corporations – The Firm's worth

The time value of money is important because it allows investors to make a more informed decision about what to do with their money. The TVM can help management to understand which option may be best based on interest, inflation, risk and return. Time value of money is a crucial concept in capital budgeting because it makes it possible for business owners to be flexible with their cash flows over time. The business should not undertake any projects if they do not add value to the firm.
For a given rate of return, a business can determine the value of an investment made today by calculating the future value of that investment. Businesses can determine the current worth of a future cash flow or series of cash flows for a given rate of return by calculating the present value of the cash flow(s) involved. The relationship between present value (PV) and future value (FV) for a given rate r and time t is given by the basic present value equation: PV = FVt / (1 + r) t

6.4 Learning Summary

Firms can best help their shareholders by accepting all projects that are worth more than they cost.
The time value of money (TVM) is the concept that money you have now is worth more than the identical sum in the future due to its potential earning capacity. This core principle of finance holds that provided money can earn interest, any amount of money is worth more the sooner it is received. The time value of money is important because it allows investors to make a more informed decision about what to do with their money.
The lesson introduced the concept of discount rate as a major factor in the TMV. This rate is used by businesses to convert future money into today's amounts.
The rate is influenced by several factors that include the interest rate for borrowing funds, the risk associated with the project, the return demanded by investors, and the return the company can earn from investing – the lesson did not covered the discount rate calculations.
Cash flows are discounted for two simple reasons:
(1) A dollar today is worth more than a dollar tomorrow and
(2) A safe dollar is worth more than a risky one
Formulas for PV and NPV are numerical expressions of these ideas.

6.5 Review Questions

1. Explain the concept of Time Value of Money TMV, and the importance for business capital budgeting decisions
2. A business is considering a one-year investment. If they invest $1,250, and will get back $1,350. What rate (return) is this investment paying?

Unit 7: Sources of Capital: Equity or Debt Financing

7.1 Equity: Introduction and Types of Equity

The lesson discusses the concept of equity from the accounting point of view, and the approaches and uses of the term. It can be use as the price of the stock or the worth of a business by the remainder from subtracting assets and liabilities.
So far, the lessons had covered in depth the equity from a balance sheet perspective, and this lesson intends to cover the view from the market value of the stock price.
Definition of types of stocks: common and preferred stock are discussed, and the main differences in terms of the type of investor and voting preference.

7.2 Equity Valuation (Common Stock)

Equity valuation, as a tool for assessing the business value is addressed, as the method to determine the intrinsic value of the business and the percentage share or proportional share of ownership of an investor in a business. The tools and methods discussed are the absolute (based on the company fundamental information) and relative which is a simple analysis based on the valuation of similar businesses.
As an absolute method, we recommend and fully discussed the dividend discount model DDM based on the premise that intrinsic value of the company's stock price equals the present value of the company's future dividends

7.3 Debt: Introduction, Types of Debt (Loans and Bonds)

Introduction to debt financing which is includes the uses of funds from third parties and paying an interest for the lean like bank loans. However, this lesson should be focus in debt financing thru bond issuance. The lesson explains the basic concept, types and features of bonds, provides a case example.

7.4 Bonds Valuation and the Interest Rates

This section introduces the student with the particular way of bond pricing: the concept of yield, and YTM, and the inverse impact in the pricing when interest rates fluctuates.

7.5 Debt or Equity Financing?

The decision depends upon multiple factors such as the current economic climate, the business' existing capital structure, or the business' life cycle stage. The Cost of Equity is generally higher than the Cost of Debt since equity investors take on more risk when purchasing a company's stock as opposed to a company's bond but taking on too much debt will cause the cost of debt to rise above the cost of equity.
The biggest factor influencing the cost of debt is the loan interest rate. Other considerations when making a financing decision are flotation costs, and the stage in the lifecycle the business is. There are some pro's and con's discussed in the lesson to share with the class,

7.6 Learning Summary

The lesson covered the major sources of financing: loans thru banks, and bond and equity financing. The basic types of stocks -common and preferred, and bonds – corporate or government was explained.
The business can choose one type of financing or a blend, whichever result in less cost of capital expenses. Debt financing involves the borrowing of money
whereas equity financing involves selling a portion of equity in the company. The main advantage of equity financing is that there is no obligation to repay the money acquired through it.
Equity financing places no additional financial burden on the company, however, the downside is quite large since it renders control of the business and dilutes the earnings. Creditors look favorably upon a relatively low debt-to-equity ratio, which benefits the

company if it needs to access additional debt financing in the future. The optimal capital structure is the one that minimizes the cost of capital by taking the right mix.

7.7 Review Questions

1. Define equity, and the types of equity available
2. Explain the ideal / optimal capital structure for business

Unit 8: Risk and Return

8.1 The Concept of Business and Risk

The lesson discusses the concept of business risk as one of the major factors affecting business decisions. Risk is based in uncertainties, bad business or sometimes an action a business has to take to prevent market failure like investing in new lines of business. Students must understand at the end of this lesson the importance of risk assessments, risk measurement, and risk mitigation strategies for business sustainability over time.

8.2 Types of Risks: Systematic and Unsystematic Risk

The businesses risks are two types, the one business cannot diversify or systematic or market risk, and the opposite unsystematic or diversifiable. The unit convers in depth with cases and examples the main differences for the student to be aware of what is diversifiable and what is not.

8.3 Expected Returns of a Portfolio of Investments

It is important as a tool for analysing business decision as to whether an investment has a positive or negative average net outcome.
It is calculated as the *expected value* of an investment given its potential returns in different scenarios. In other words, the expected return is the amount of profit or loss an investor can anticipate receiving on an investment (multiplying potential outcomes by the odds of them occurring and then totalling these results)
Expected return is based on historical data and is therefore not guaranteed; it is merely a long-term weighted average of historical returns, but still a useful and a valuable guideline.

Expected Rate of Return (ERR) = R1 x W1 + R2 x W2 ... Rn x Wn

8.4 The Importance of Portfolio Diversification for a Business

Portfolio diversification is the process of distributing the firm's assets in in different asset classes and types of investments in order to minimize the overall risk of the portfolio.
The fundamental purpose of portfolio diversification is to minimize the risk on the business investments, specifically unsystematic risk.
Unsystematic risk—also known as specific risk—is risk that is related to a specific company or market segment.
By optimal diversification, not all the investments would be uniformly affected in the same way by market events.

8.5 The Beta of a Company (β)

The basic concept of a company beta (β) is a measure of the volatility, or systematic risk, of a security, as it compares to the broader market.
The beta of a company measures how the company's equity market value changes with changes in the overall market. It is used as a measure of risk and is an integral part of the Capital Asset Pricing Model (CAPM) –will be covered in full in another lesson.

A company with a higher beta has greater risk and also greater expected returns.
A stock's beta compares its movements to the overall market - or a stock index for example the S&P 500. Some examples of companies betas explains the relationship
β =1 exactly as volatile as the market
β >1 more volatile than the market
β <1>0 less volatile than the market
β =0 uncorrelated to the market
β <0 negatively correlated to the market

8.6 Learning Summary

The lesson covered some of the most important aspects of uncertainty that is translated to risk. The risk can be systematic and unsystematic, and only unsystematic risk is diversifiable, and mitigate losses.
The fundamental purpose of portfolio diversification is to minimize the risk on the investments; specifically unsystematic risk, that is related to a specific company or market segment. By diversifying your portfolio, this is the risk you hope to cut. This way, not all the investments would be uniformly affected in the same way by market events.
In addition, the unit discussed the basic concept of expected return as tool to anticipate success of an investment opportunity based on past data. The student is introduces to one of the major indicators of volatility: the beta. The beta of an investment security (i.e. a stock) is a measurement of its volatility of returns relative to the entire market.
The lesson also introduced the student to one of the most important equations in finance the Capital Asset Pricing Model (CAPM)* that will be cover in another lesson.

8.7 Review Questions

1. Define systematic and unsystematic risk, and provide a recent real life example of each. Explain what specific actions businesses might use mitigate those risks
2. What does a beta coefficient measure?

Unit 9: Capital Budgeting/Long-Term Investment Decisions

The process of allocating or budgeting capital is usually more involved than just deciding whether to buy a particular fixed asset. Businesses frequently face broader issues like whether we should launch a new product or enter a new market. Decisions such as these determine the nature of a firm's operations and products for years to come, primarily because fixed asset investments are generally long-lived and not easily reversed once they are made.
The most fundamental decision a business must make concerns its product line. What services will they offer or sell? In what markets will they compete? What new products will they introduce? The answer to any of these questions will require that the firm commit its scarce and valuable capital to certain types of assets. As a result, all of these strategic issues fall under the general heading of capital budgeting.
An investment is worth undertaking if it creates value for its owners. The business creates value by identifying an investment worth more in the marketplace than it costs us to acquire.

9.1 Traditional or Non-Discounted Investment Criteria:

The lesson convers an investment method criterion that does not take into consideration the value of money over time

9.1.1 Payback Period

The Payback Period is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost.
The payback rule states that a project should be accepted if its payback period is less than the business some specified cut-off period.
It is an easy to apply and understand but does it has severe high impact drawbacks like not take into consideration de TVM, and the cut-off period could be an arbitrary and convenient measure.
Some numerical examples are in the PPT to discuss with the students

9.2 Non-Traditional or Discounted Investment Criteria:

We will study one investment method that does take into consideration the value of money over time

9.2.1 Net Present Value (NPV)

The Net Present Value (NPV) computes the difference between an investment's market value and its cost.
The lesson has real cases with formulas and calculations and the NPV – Decision Rule is: If the NPV is positive, accept the project. A positive NPV means that the project is expected to add value to the firm and will therefore increase the wealth of the owners. Since the goal of the business is to increase owner wealth, NPV is a direct measure of how well this project will meet their goals. The main advantage is that the method takes into consideration TMV, and a major disadvantage is that it requires some guesswork about the firm's cost of capital.
The lesson also covers the concept of mutually exclusive investment criteria with an example.

9.2.2 Internal Rate of Return (IRR)

Internal Rate of Return is the most important alternative to NPV. It is based on the estimated cash flows and is independent of interest rates found elsewhere. IRR is the return that makes the NPV = 0, and the decision rule is to accept the project if the IRR is greater than the required rate of return RRR. Calculation requires a financial calculator that the student can get free in any app.

9.3 Learning Summary

The lesson is a key lesson for corporate finance as it refers to one of the most important activities: capital budgeting.
It introduces key ideas on an intuitive level to help students with this traditionally difficult topic, and provides a balanced examination of advantages and disadvantages of various criteria.
The most fundamental decision a business must make concerns its product line. What services will we offer or what will we sell? In what markets will we compete? What new products will we introduce? The answer to any of these questions will require that the firm commit its scarce and valuable capital to certain types of assets. This capital budgeting question is probably the most important issue in corporate finance. The lesson covers three investment criteria methods, one traditional and two non-traditional with the main difference of TVM considerations.
An investment is worth undertaking if it creates value for its owners. In the most general sense, we create value by identifying an investment worth more in the marketplace than it costs us to acquire. In addition, some examples are provided on how to calculate

each of the methods, they are discussed the interpretation of the results. We also described the advantages and disadvantages of each of them.
Ultimately, a good capital budgeting criterion must tell us two things: First, is a particular project a good investment? Second, if we have more than one good project, but we can take only one of them, which one should we take?

9.4 Review Questions

1. Why capital budgeting is important for business?
2. What is the net present value rule? If a business says that a particular investment has an NPV of $1,000, what do they mean?
3. A business is anticipating the following Cash Flows. Suppose the firm uses the NPV decision rule. At a required return RRR of 11%, should the firm accept this project?, and RRR 30%? Please explain.

Unit 10: Long-Term Investment Decisions/Capital Budgeting

The process of allocating or budgeting capital is usually more involved than just deciding whether to buy a particular fixed asset.
Businesses frequently face broader issues like whether we should launch a new product or enter a new market. Decisions such as these determine the nature of a firm's operations and products for years to come, primarily because fixed asset investments are generally long-lived and not easily reversed once they are made.
To assess the business needs will require that the firm commit its scarce and valuable capital to certain types of assets. As a result, all of these strategic issues fall under the general heading of capital budgeting.
An investment is worth undertaking if it creates value for its owners. The business creates value by identifying an investment worth more in the marketplace than it costs us to acquire.

10.1 Making Capital Investment Decisions: Project Analysis and Evaluation

Previous lessons on capital budgeting concluded that the choice of which projects to accept or reject is a follow the rule guideline. The business need to forecast the cash flow, choose the right discount rate, and compute the net present value to make the decision. Finding suitable projects that create value for the shareholders is not only a calculation of NPV or IRR since investment proposals may emerge from many different parts of the organization, and companies need procedures to ensure that every project is assessed consistently.
The lesson will review how firms develop plans and budgets for capital investments projects including the challenges of forecasting cash flows (the student should understand that if CF is wrongly forecast, all criteria is not valid).
The lesson also expose the student with the concepts of erosion and synergy as an efficient method for creating value, and the impact of inflation in Capital Budgeting process.

10.2 Learning Summary

The last lesson explained how companies calculate a project's NPV by forecasting the cash flows and discounting them at a rate that reflects project risk, and the result is the project's contribution to shareholder wealth.
Understanding discounted-cash-flow analysis is important, but there is more to good capital budgeting practice than an ability to discount. First, companies need to establish a set of capital budgeting procedures to ensure that decisions are made in an orderly

manner. Most companies prepare an annual capital budget, which is a list of investment projects planned for the coming year.
Inclusion of a project in the capital budget does not constitute final approval for the expenditure. Before the plant or division can go ahead with a proposal, it will usually need to submit an appropriation request that includes detailed forecasts, or a discounted-cash-flow analysis information. The business also need procedures to ensure that projects fit in with the company's strategic plans and are developed on a consistent basis.

10.3 Review Questions

1. True or false?

a. The approval of a capital budget allows managers to go ahead with any project included in the budge

b. Capital budgets and project authorizations are mostly developed "bottom up." Strategic planning is a "top-down" process

c. Project sponsors are likely to be overoptimistic.

2. Explain how each of the following actions or problems can distort or disrupt the capital budgeting process

a. Over optimism by project sponsors

b. Inconsistent forecasts of Cash Flows

Unit 11: Sources of Capital: Retained Earnings, Equity or Debt Financing

Companies are constantly looking for funds to grow the business. Funding or financing represents an act of contributing resources to finance a program, a project, or a need. Funding can be short or long term, however we will focus the lesson in long term financing for long-term purposes. The different sources of funding available for a business are Retained Earnings, Debt Capital, and Equity Capital. The business can choose either or most likely a blend of all. The lesson will discuss the criteria for selection of a particular way of funding.

11.1 Retained Earnings

After generating profits, a company decides what to do with the earned capital and how to allocate it efficiently. The profits can be distributed to shareholders as dividends (explain briefly the concept since it will be covered in the future), or the company can reduce the number of shares outstanding by initiating a stock repurchase campaign to gain control. Alternatively, or most likely, the company can invest the money into a new project like a building a new factory. Retained earnings balance is available in the balance sheet, and should be used if the business is under certain conditions like the right business cycle.

11.2 The Cost of Equity Financing for a Corporation

Explain that companies can raise funds from the public in exchange for a proportionate ownership or stake in the company in the form of shares issued to investors who become shareholders after purchasing the shares.

Equity financing involves selling a stake of the business in return for a cash investment from investors. The benefit is that is less costly since the business does not have to pay interest or any other price, and the trade-off is that the business will dilute ownership and lose control.

11.2.1 Capital Asset Pricing Model - CAPM

The lesson introduces the concept of CAPM Capital Asset Pricing Model as of the most widely used tools in Finance to calculate the cost of equity capital. The CAPM describes the relationship between systematic risk and expected return for assets. There are some numerical cases for to further understand the concept, and the formula with the rationale behind the variables.

Expected Return RS = RF + β * (RM - RF)

11.2.2 The Security Market Line - SML

The security market line (SML) is a line drawn on a chart that serves as a graphical representation of the capital asset pricing model (CAPM).

The idea is to plot the results in the graph, and all the investments below the line are costly and should not be undertaken in term of their return. An example is provided for better understanding of this important visual tool.

11.3 The Cost of Debt Financing for a Corporation

Companies obtain debt financing privately through bank loans or source new funds by issuing debt to the public.

The cost of debt for commercial loans from banks or financial institutions is the borrowing rate on the prospective loan, but the unit focuses only in corporate bond issuance as the cost of debt financing (not bank loans).

The concept and features of the bonds were discussed in previous lesson, but it is highly recommended to review them again specially the concept of face value, yield, coupon, and maturity.

The cost of debt financing is related to the bond interest YTM, or the reference of the industry by one of the rating agencies like S&P or Fitch Rating.

11.4 Learning Summary

The lesson explained the sources of capital available for business. The sources are debt financing refers to issuing bonds and the cost is the interest rate it pays to the bondholders. Equity funding refers to issuing stock to finance the business and the CAPM is the tool used for calculating the expected return.

There is no ideal mix but every firm has an optimal and efficient (cost effective) means for funding that includes the required capital structure (will be cover later) or market conditions. Equity financing is less costly but dilutes ownership, profit distribution and business control.

As a rule in obtaining external financing, the issuance of debt is usually considered to be a less expensive source of financing than the issuance of equity.

11.5 Review Questions

1. Compare and contrast the sources of funds available for businesses
2. The price of the stock of the Benny's Tennis Club, has a beta of 1.2. The firm is 100% equity financed; and is considering buying a new tennis field. The new projects are similar to the firm's existing ones, therefore the average beta on the new projects is assumed to be equal to existing beta, the risk-free rate 3.5%. What is the appropriate discount rate or expected return for this new project, assuming a market risk premium of 7 %?

Unit 12: Sources of Capital Funding- Equity and Debt Financing

12.1 The Cost of Capital: The concept of Weight Average Cost of Capital (WACC) as a tool for decision-making

The lesson discusses the concept of the cost of capital for the firm as a whole, and it can be interpreted as the required return of the overall firm.
Discussing the Weighted Average Cost of Capital – WACC recognizes the fact that a firm will normally raise capital in a variety of forms and that these different forms of capital may have different costs associated with them.
A firm's Weighted Average Cost of Capital (WACC) represents the blended cost of capital across all sources: common shares, preferred shares, or debt.
The formula is WACC = (E/V x Re) + ((D/V x Rd) x (1 – T)), and the purpose is to determine the cost of each part of the company's capital structure based on the proportion of equity and debt - each component has a cost to the company. There is a numerical example computing the WACC for a business with a particular debt/equity ratio to be discussed with the students.

12.2 The Importance of the Cost of Capital for Business Financial Decisions

The weighted average cost of capital is the rate that a company expects to pay on average to all its security holders to finance its assets. In addition, it measures if a return on investment can exceed or meet an asset, project, or company's cost of invested capital. Furthermore, the Weighted Average Cost of Capital serves as the discount rate for calculating the Net Present Value (NPV) of a business.
It represents the firm's opportunity cost - used to evaluate investment opportunities

12.3 Learning Summary

The weighted average cost of capital (WACC) is an important financial precept that is widely used in financial circles to test whether a return on investment can exceed or meet an asset, project, or company's cost of invested capital (equity + debt).
It is used as a hurdle rate for evaluating mergers and acquisitions (M&A), and for financial modeling of internal investments, serves as a guideline for corporate actions. For example, if the investment opportunity Internal Rate of Return is lower than the WACC or IRR < WACC, the business should buy back its own shares or pay out a dividend instead of investing in the project.
Management uses this ratio to decide whether the company should use debt or equity to finance new purchases. The formula for this calculation is:
WACC = (E/V x Re) + ((D/V x Rd) x (1 – T))

12.4 Review Questions

1. Explain the concept of WACC, and the critically analyse the importance for businesses.
2. Alessia's Kitchen & Co. has 1.4 million shares of stock outstanding that sells for $20 / share. The firm's debt is publicly traded and was recently quoted at 93 % price. It has a total face value of $5 million, and it is currently priced to yield 11%. The risk-free rate is 8%, and the market risk premium is 7%. Finance department estimated the business beta of 0.74,, and a tax bracket of 34%. Compute the WACC of If the corporate tax rate is 34 percent, what is the WACC of Alessia's Kitchen & Co.

Unit 13: Capital Structure

13.1 The Business Debt to Equity Ratio Decisions

The lesson is an enhancement of lesson 12 to complement the learning.

Capital structure describes a firm's finances in terms of the balance between its debt and equity. Senior business management team and other stakeholders will consider the proper mix of debt and equity for their ideal capital structure.
The optimal capital structure is the most efficient mix of debt and equity that minimizes the weighted average cost of capital (WACC) of a company while maximizing its market value

13.2 Factors Affecting Target Capital Structure

The computation and considerations for the optimal capital structure is not an easy task., and business must take into consideration among other factors the firm's cash flow position, the required ROI, the cost of debt in the market, regulatory frameworks and even the industry benchmark.

13.3 Capital Structure and Corporate Taxes - Considerations

Taxes are a key element and a very complex consideration for decision-making.
An increase in corporate tax rates lead to increases in leverage, and all stakeholder's will be affected.

13.4 Learning Summary

The lesson complement lesson 12 learning. Capital structure describes a firm's finances in terms of the required debt and equity in their capital structure and cost of capital. The optimal capital structure is the most efficient mix of debt and equity that minimizes the weighted average cost of capital (WACC) of a company while maximizing its market value.
The lower the cost of capital, the greater the present value of the firm's future cash flows discounted by the WACC. An increase in corporate tax rates lead to increases the business leverage.
The lesson has a few numerical cases that we encourage to share with the student.

13.5 Review Questions

1. Define the concept of Debt/Equity ratio decisions, and the implications for businesses in term of generating shareholder's value.
2. Critically analyse the effect of a tax increase for a business capital structure.

Unit 14: Dividends and the Dividend Policy

14.1 The Concept and the Relevance of the Dividends

Profits generated by businesses is accumulated in the retained earnings account, and those earnings can be either reinvested in the business, buy back shares or paid out to shareholders as a dividend.
A dividend is a share of profits and retained earnings that a company pays out to its shareholders.
Dividend policy is an important activity in corporate finance, and dividends are a major cash outlay for many corporations.
According to CNBC Dividend payouts to hit $1.4 trillion in 2021, nearing pre-pandemic levels, research shows. It might seem equally obvious; however, that a firm could always invest the money for its shareholders instead of paying it out but sometimes it is not in the business objectives.
The complexity of the dividend policy question is: should the firm pay out money to its shareholders, or should the firm take that money and invest it for its shareholders? Or Does dividend policy matters? What type of investor's favour high dividend payouts?

14.2 The Types of Dividend

The lesson discusses the major divided types: cash and stock dividend (consider that not paying a dividend is part of a dividend policy), the payment chronology and the concept of ex-dividend rate were the investors expects that the value of a share of stock will go down by about the dividend amount when the stock goes ex dividend.
The dividends and an income, are taxed, so the actual price drop might be closer to some measure of the after-tax value of the dividend

14.3 Learning Summary

Overall, individual investors (for whatever reason) may have a desire for current income and may thus be willing to pay the dividend tax. In addition, some very large investors such as corporations and tax-free institutions may have a very strong preference for high dividend payout.
Dividend policy is irrelevant when there are no taxes or other imperfections because shareholders can effectively undo the firm's dividend strategy. Shareholders who receive dividends greater than desired can reinvest the excess. Conversely, shareholders who receive dividends smaller than desired can sell off extra shares of stock.
Individual shareholder income taxes and new issue flotation costs are real-world considerations that favours a low dividend payout.

14.4 Review Questions

1. Critically explain the reason for an investor to invest in a dividend payment firms. Consider the reasons for and investor not want to receive dividends
2. Define the concept of cash dividend, and compare it to stock or other asset dividend payment.

Unit 15: Long-Term Financial Policies: Dividend Policy – Other Considerations

15.1 Stock Splits and the Strategy in Stock Buyback Relevance of the Dividends

The lesson covers other corporate actions like stock splits, reverse stock split, and stock buybacks.
A stock split is similar to stock dividend, except that a split is expressed as a ratio instead of a percentage. When a split is declared, each share is split up to create additional shares. For example, in a three-for-one stock split (3:1), each old share is split into three new shares with a thirds of the value, in other words, it is an increase in a firm's shares outstanding without any change in owners' equity. The strategy behind the stock split is increase liquidity by lowering the share price to a value that is attractive to investors (refer to the lesson's example on Apple's multiple stock splits).
If a stock's price rises into the hundreds of dollars per share, it tends to reduce the stock's trading volume. Increasing the number of outstanding shares at a lower per-share price adds liquidity.
The reverse stock split is a measure taken by companies to reduce their number of outstanding shares in the market. Existing shares are consolidated into fewer, proportionally more valuable, shares, resulting in an increase in the company's stock price (please comment that is not very often). The strategy behind the reverse stock split is to avoid delisting by the stock exchanges, to increase the value of each common stock (please refer to the Priceline case available in the lesson), and to increase the marketability of a company's stock when the price is raised to the popular trading range.
Stock repurchase is the purchase 9a financial transaction), by a corporation, of its own shares of stock by buying them in the open market or following strategies covered in the

lesson for the purpose to gain control, increase the value of the stock, or distribute less dividends.

15.2 Factors Affecting Dividend Decisions

The lesson discusses other factors affecting dividend decisions not related to the investor's preference like liquidity, tax, or regulatory considerations before deciding to pay and the payout ratio.

15.3 Optimum Payout Policy for a Business: How is the Dividend Policy Determined?

The unit covers son of the variables a financial analyst should consider, and can combine into dividend theories about the way in which dividend policy affects less the company's value (the lesson covers various methods like stable dividend policy).
The class should not miss the concept of increasing the current price of the share, and all actions must involves strategies than enhance that objective.

15.4 Learning Summary

Dividends are important because the value of a share of stock is ultimately determined by the dividends that will be paid.
The lesson covered various concepts like stock splits, reverse splits, the strategy behind the business share buyback. Also, the factors affecting financial managers for deciding to pay or not dividend, different than the investor's preference, the right payback, and the most efficient method that will benefit the overall value of the stock which is the ultimate role of the finance department and the businesses.

15.5 Review Questions

1. Discuss the effect of a stock split, and the reverse split on stockholder wealth
2. Critically analyse three factors that affects the business dividend policy

Unit 16: Short-Term Financial Planning and Management

16.1 Short-Term Finance and Planning

To this point, the lessons described many of the decisions of long-term finance, such as those of capital budgeting, dividend policy, and financial structure.
This lesson will cover short-term finance. Short-term finance is primarily concerned with the analysis of decisions that affect current assets and current liabilities, also called working capital.

16.2 Cash and Liquidity Management

A firm holds cash to conduct transactions and to compensate banks for the various services they render, and financial managers must always work with collected cash balances. Because of seasonal and cyclical activities, to help finance planned expenditures, firms temporarily hold a cash surplus

16.3 Credit and Inventory Management

The lesson discussed the components of credit policy: the terms of sale, credit analysis, and collection policy, and the optimal credit policy or the optimal amount of credit the firm should offer depending on the competitive conditions under which the firm operates.
The lesson also covered the importance of inventory, the types and cost associated with each type of inventory, and mention some inventory management techniques like ABC approach and the EOQ model approach to an efficient inventory management and control.

16.4 Learning Summary

The lessons covered short-term finance involving operations and deliverables within a year.
Short-term finance is primarily concerned with the analysis of decisions that affect current assets and current liabilities, as it is also called working capital.
The main topics related to short-term management are cash, inventory, and credit management.

16.5 Review Questions

1. Compare and contrast the short-term and the long-term financing and management
2. Define the basic goal of inventory management
3. List two potential sources of cash for a business

Unit 17: International Aspects of Corporate Finance

Introduction to the topic:
Corporations with foreign operations are called multinationals. Such corporations must consider unique foreign financial factors that might not directly affect domestically like currency exchange rate fluctuations; interest rates from country to country, complex accounting methods, tax rates, or foreign government intervention.
The basic principles of corporate finance still apply to international corporations:

- Investing in projects that create more value for the shareholders than they cost
- Arrange financing that raises cash at the lowest possible cost.

The net present value principle holds for both foreign and domestic operations

17.1 Country and Political Risk

Country risk is the risk that a foreign government will default on its bonds or other financial commitments.
Political risk is the exposure to a change in the value of an investment cash position resultant upon government actions ranges from exposure to changes in tax legislation like tariffs, FX exchange controls, restrictions affecting operations, or financing in a host currency.

17.2 The Foreign Exchange Market: FX Risk

Foreign exchange risk is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the company.
For businesses, it is the risk that all MNC faces when operating in a foreign country and the uncertainty of future exchange rates to repatriate profits or locally generated cash flows.
The lesson provides examples, and it is recommended to share them with the class.
Translation, transaction, and economics risks are risks associated with operating in a foreign country, all of them fully explained.

17.3 Purchasing Power Parity

Purchasing power parity is the currency exchange rate that eliminates price differences between countries and tries to level their purchasing power. In other words, Purchasing power parity (PPP) is an economic concept for equalizing the price of a set of identical items across different locations. These goods should be priced at the same level in various countries, but they are not due to inflation or cost of living rates. There is a clear example of PPP like Netflix, Inc. subscription in different countries.

17.4 Interest Rate Risk

Each country has their own interest rates that are calculates based of the macroeconomics situation and government policies. Interest rate risk is concerned with the sensitivity of profit, cash flows or valuation of the firm due to changes in interest rates.

The main idea is always cash flow repatriation and high interest risk with lower the cash flow.

17.5 International Capital Budgeting: Overseas Project Appraisal

The most important factor to considerate when evaluation in international projects are FX rates and taxes.
A project may can produce considerable cash flows in a foreign territory but, because of exchange control restrictions, the bulk of these foreign cash flows may not be distributable to the parent company-zero incremental in value.
There are two approaches to international project appraisal: local and foreign currency approaches. The lesson explain each method with a case.

17.6 Learning Summary

The lessons covered some of the considerations a business should undertake when operating overseas.
There are great opportunities for business to generate value in the price of the stock, but there are also risks like country risk and FX risk.
FX risk is the major risk to consider due to change in the value the base currency that could dilute the earnings. The lesson also had the concept of PPP explained as an arbitrage to generate extra profits, and the opportunity to international capital budgeting for project execution decision-making process based on country or foreign approaches.

17.7 Review Questions

1. Define FX risk for MNC's, and critically analyse the impact of this factor in the business profits
2. Describe the main difference in overseas budget appraisal home and foreign currency approaches

Unit 18: Curse Wrap Up

The recommendation it to walk thru all the lesson in order, and spend more time in key issues like the corporate finance activities (Capital structure, Finance decisions, and Dividend policy) , the NPV, WACC, beta, financial statement and ratio analysis to understand the business financial health. Refresh the most memorable cases, set exercises or debates in class.

18.1 Learning Summary

The intention is that the student can understand the major topics in corporate finance.

18.2 Review Questions

Activity recommended:
Select two questions from the review questions bank, and addresses to each student

References

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Articles:

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2) http://www.buffalo.edu/news/releases/2002/01/5523.html
3) https://www.britannica.com/event/Enron-scandal
4) https://www.insurancebusinessmag.com/ca/news/marine/multiple-insurance-lines-impacted-by-ever-givens-suez-canal-blockage-252203.aspx
5) https://www.forbes.com/sites/edwardsegal/2021/03/31/impact-of-suez-canal-crisis-on-companies-around-the-world-could-last-weeks/?sh=5f99499042d8
6) https://www.business-standard.com/article/international/insurance-companies-on-hook-for-millions-tied-to-suez-canal-crisis-121032900010_1.html
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12) https://financialmodelingprep.com/weighted-average-cost-of-capital/DIS
13) https://www.spglobal.com/platts/en/market-insights/latest-news/oil/040121-aramco-may-slash-dividend-payment-to-boost-saudi-economic-growth-plan
14) https://www.cnbc.com/2021/08/23/shareholder-payouts-to-hit-1point4-trillion-in-2021-nearing-pre-pandemic-levels.html
15) https://www.forbes.com/advisor/investing/coronavirus-covid-dividend-investing/

16) https://www.ft.com/content/2719966c-b228-4300-bdc0-dcbe2f7050fd
17) https://hbswk.hbs.edu/item/cruising-in-crisis-how-carnival-is-riding-out-the-covid-19-storm

Websites:

1) https://corporatefinanceinstitute.com/
2) https://investor.starbucks.com/financial-data/annual-reports/default.aspx
3) https://www.researchgate.net
4) https://www.wallstreetmojo.com
5) https://siskmorriscpa.com
6) https://www.accountingcoach.com/balance-sheet-new/explanation/2
7) https://www.avisbudgetgroup.com
8) courses.lumenlearning.com
9) https://www.ig.com/

Videos:

1) https://www.youtube.com/watch?v=_xwk6rHugB8

Appendix A Action Programme

Learning Activities and Formative Assessments

Lesson 1

Activities:

1. Video Lecture
2. Independent Study and Reading: The Agency Problem- Enron Case
   Read the following articles and discuss to the board class the type of conflict existed between the company's' management and the stockholders, and what specific actions and initiatives could have prevented the bankruptcy
   http://www.buffalo.edu/news/releases/2002/01/5523.html
   https://www.britannica.com/event/Enron-scandal

   Students can also read other relevant news and articles to illustrate the case.
   Present the findings in a short briefing VLE – 1 paragraph

Formative Assessment: The Suez Canal Crisis
Case Study 1: The Suez Canal Crisis, and the role of the Finance Manager of the Insurance Industry.

The activity requires to select and read the some of the following articles regarding the Suez Canal blockage crisis, assess the challenges that finance manager of that specific industry faces in the efficient execution of the corporate finance activities and main responsibilities discussed in the lesson, and by using critical thinking provide some solutions.

- https://www.insurancebusinessmag.com/ca/news/marine/multiple-insurance-lines-impacted-by-ever-givens-suez-canal-blockage-252203.aspx
- https://www.forbes.com/sites/edwardsegal/2021/03/31/impact-of-suez-canal-crisis-on-companies-around-the-world-could-last-weeks/?sh=5f99499042d8
- https://www.business-standard.com/article/international/insurance-companies-on-hook-for-millions-tied-to-suez-canal-crisis-121032900010_1.html
- https://www.reuters.com/article/us-egypt-suezcanal-ship-insurance-idUSKBN2BG31A
- https://www.insurancejournal.com/news/international/2021/05/10/613337.htm

Students should start with the idea that the price of the stock (revenues) will be impacted in the short-medium term, especially the revenues from insurance company of the blocked ship – The UK P&I Club, and other major insurance businesses like Allianz. Analyze the impact in their working capital (use of cash), financing (need for short-term loans to pay affected parties like the Suez Canal Authority), and investing activities (delay real estate purchases of new buildings) or the dividend decision (not paying dividends) due to the blockage.
Online: Prepare a short 150-word report and submit in VLE

Lesson 2

Activities:

1. Video Lecture
2. Case Studies: Choose a public corporation of your preference (example AMAZON.Com, Inc.) and research in the internet recent news and periodical articles to learn of any information that would be helpful in understanding the company's financial condition as well as plans. Summarize your findings and conclusions based on the

research. Prepare to answer if the business is in good or bad financial condition, and explain.
Discussion Board - Present the findings in a short briefing VLE – 1 paragraph

Formative Assessment: No formative assessment

Lesson 3

Activities:

1. Video Lecture
2. Individual Work: Research in the internet for articles and news regarding the topic: businesses liquidity challenges due to Covid-19 pandemic, and understand the action plan the have to undertake to overcome the crisis like for example: https://fortune.com/2021/01/11/carnival-cruises-covid-19-losses-q4-earnings/
Discursion Board - Present the article/news and a summary of your findings in a short briefing VLE – 1 paragraph

Formative Assessment: No formative assessment

Lesson 4

Activities:

1. Video Lecture
2. Group Problem Solving: Find a teammate.

Find a teammate. Practice by computing the financial ratios studied in class of the Malta based business Kindred Group with a total capitalization as of Aug 2021 (market value) of 18.567 Billion USD or any other publicly traded business of the team's preference.

https://www.kindredgroup.com/

Look at the annual report, and compute the ratios for practice.

Present the results and your comments in VLE

1.

Formative Assessment: No formative assessment

Lesson 5

Activities:

1. Video Lecture
2. Group Work: Get together to work in groups of two, and do a small research about AMAZON.COM, INC long term strategy in financial planning, and their sustainable growth success case – why are they successful? Relate the finding to the topic of the lesson. Example news: https://www.forbes.com/sites/greatspeculations/2021/08/13/amazons-stock-to-rise-as-growth-continues/?sh=268b29de4788. Understand where the funding comes, and how sustainable the business growth has been.
Discursion Board - Present the article/news and a summary of your findings in a short briefing VLE – 1 paragraph

Formative Assessment: No formative assessment

Lesson 6

Activities:

1. Video Lecture
2. Practical Session: There are few capital budgeting or investment decisions cases in the lesson that required using the topics covered in the lesson, and most of them include the decisions from the CFO point of view. Please review them and compute them based in the information provided. Show calculations and rationale in VLE for credit in a short and brief statement
   a. The business you invest €100,000 in a bank account that pays interest of *r=7%* a year. Compute the value of the business investment in Y1 and Y2
   b. As a CFO, your business you want to know how much the business have to invest today in a bank account that pays interest of *r=7%* a year to receive €114,490 at the end of the second year (the present value (PV) of the €114,490 payoff?)
   c. Company A Ltd wanted to know their net present value of cash flow if they invest $100,000 today, their initial investment in the project is $80,000 for the 3 years of time, and they are expecting the rate of return is 10 % yearly. Calculate the NPV using the formula NPV = Cash Flows /$(1+ r)^t$ – Initial Investment
   d. Present Value of an investment opportunity: NapoPizza Ltd is contemplating construction of a warehouse. The total cost of buying the land and constructing the facility is €370,000, and according to your real estate advisor, and due to warehouse space demand for that year, NapoPizza Ltd owners will be able to sell the fully built warehouse for €420,000 in one year. The rate of interest on EU r* =5% per year (discount rate or opportunity cost of capital). Compute the present value or market price of the warehouse, and if the business should invest in the project. Investors believe the warehouse project is as risky as investment in the stock market and that stocks offer a 12% expected return (12% is the opportunity cost of capital – they are giving up by investing in the warehouse and not investing in equally risky securities (tip recalculating NPV with r = 12%)
   e. Nico Rey is trying to sell an office building in Florida, and yesterday Many Fer offered $10,000 for the property. He was about ready to accept the offer when Benny Bo offered him $11,424. However, the second offer was to be paid a year from now. Which offer should Nico choose? The bank's insured rate for deposits is 12%. Option 1 $10,000 from Manny Fer Option 2 $11,414 from Benny Bo.
   f. The ABC Kitchen Company is contemplating investing €1 million in four new stores in Boston. Carol R, the firm's chief financial officer (CFO), has estimated that the investments will pay out cash flows of € 200,000 per year for nine years and zero thereafter - The cash flows will occur at the end of each year and there will be no cash flow after year 9 – Mrs. R has determined that the prudent and appropriate discount rate for this investment is 15% - this is the rate of return that the firm can earn at comparable projects. Should the ABC Kitchen Company make the investments in the new stores?

Formative Assessment: Group Report Formative Submission Deliverable 1:
Submission of the group report to receive feedback in the criteria's 1 and criteria 2.
Way of submission: VLE

Lesson 7

Activities:

1. Video Lecture
2. Individual Work: Research on the internet and analyse recent news and articles about the bond and stock market, pricing of the business and business value of a business of your interest.

For Example:

- Bond and Stock Market News: The NYT article about bonds tells investors that interest rates will rise, and to be cautious about inflation https://www.nytimes.com/2021/02/23/upshot/biden-bonds-market-inflation.html
- Pricing (price per share) and business value of TESLA: https://finance.yahoo.com/quote/tsla/key-statistics/ says that the value of the business shares is US $728 per share @Sept 2021 and 760 billion US dollars business value. According to https://markets.businessinsider.com/news/stocks/tesla-valuation-trillion-stock-price-china-demand-giga3-market-capitalization-2021-3
  The future value of TESLA is expected to be 1 trillion US dollars by the end 2021 due to increase in demand in China.

Present a summary of your findings in a short briefing VLE – 1 paragraph

Formative Assessment: No formative assessments

Lesson 8

Activities:

1. Video Lecture
2. Direct Question and Response: Risk and Return

Look up in sources that provides reliable information and look for your favorite company's beta and explain the chosen company's risk based in the findings.

Prepare to answer to the questions:

1. Name of the business
2. The business most recent beta value - do not forget to share the source of information,
3. If the beta is high, low or negative and
4. Explain the rationale

   If you want to go and extra mile, compare the findings with the major competitor, and provide some conclusions. For example, TESLA, 1.96 according to yahoo. Finance. TESLA will theoretically see its stock price increase by 1.96% for every 1% increase in the market. Put differently, if an investor is expecting the overall market to return 8%, a business-like TESLA with a highly volatile beta of 1.96 should return 15.68% the investor. TESLA's competitors are other carmakers active in the EV space, so I decided to look up for Honda which has a beta of 0.80 so is less volatile.

Hint: Beta is a measure of risk commonly used to compare the volatility of stocks to that of the overall market. Securities with betas below 1 have historically been less volatile than the market.

Formative Assessment: No formative assessments

Lesson 9

Activities:

1. Video Lecture
2. Practical Session: Answer the questions available in the lesson end of unit review section.
   1. Explain why capital budgeting is important for business?
   2. What is the net present value rule? Analyse the statement for a business: “A particular investment has an NPV of $1,000”, what does that mean?
   3. A business is anticipating the following Cash Flows:

Initial investment in a building $34,000
Y1 Rent $16,000
Y2 Rent $18,000
Y3 Rent $15,000

Suppose the firm uses the NPV decision rule. At a required return RRR of 11%, should the firm accept this project? and RRR 30%? Please explain.

Present the results in VLE

Formative Assessment: No Formative Assessment

Lesson 10

Activities:

1. Video Lecture
2. Direct Question and Response: Capital Budgeting-Long term investment decision
   Based in the following reading:
   https://bohatala.com/coca-cola-company-capital-budgeting-process-and-procedures/,
   Discuss Coca Cola's budgeting process and procedures, and capital budgeting decision-making process

   Present the findings in a short essay in VLE (max 2 paragraphs)

Formative Assessment: Tik Tok capital budgeting decisions
Case Study 2: Tik Tok capital budgeting decisions

Read the Harvard Business Review article in the link below, and research in the internet to identify some of the Tik Tok capital budgeting decisions, and how those decisions impacted in the business success. Please include in your analysis the challenges faced during the growth period.
For example, the *"$900 million to acquire Musical.ly, a social video app based in Shanghai with more than 200 million users worldwide and a large following in the U.S "* as a capital budgeting decision strategy to being a global business.

https://hbr.org/2019/09/the-strategy-behind-tiktoks-global-rise

Discursion Board: Present the findings in a short essay in VLE – Max 2 paragraph

Lesson 11

Activities:

1. Video Lecture
2. Individual Work: Based in the following reading:
   https://bohatala.com/coca-cola-company-capital-budgeting-process-and-procedures/
   Discuss Coca Cola's Capital acquisition and structure: debt, equity, retained earnings or a blend?

   Discursion Board: Present the findings in a short essay in VLE – 1 paragraph

Formative Assessment: Netflix Debt Funding
Case Study 3: Netflix Debt Funding

Introduction:
"Since 2011, Netflix has raised roughly $15 billion in debt (mostly by issuing junk bonds) to help fund its content production around the world. That led a group of analysts, reporters, and investors to question whether or not its business

model was sustainable long term—especially as streaming competition increased." (qz.com).
Netflix is selling $1 billion of five-year non-callable junk bonds, with half denominated in dollars and half in euros. In its bond-offering announcement, Netflix says it may use the net funds it gains for "content acquisitions, production and development, capital expenditures, investments, working capital and potential acquisitions and strategic transactions."
Watch: https://www.youtube.com/watch?v=_xwk6rHugB8
Read: https://www.ft.com/content/f67a1222-a7aa-4a1c-bbae-a6407cc84eb6

Discuss the concept of Junk Bonds, quality and pricing, and why it is possible for a Businesses like Netflix to find investors with poor quality features.

Prepare a short 150-word report and submit in VLE

Lesson 12

Activities:

1. Video Lecture
2. Practical session: The class will enhance the learning by engaging in a practical session activity by answering the lesson's review questions. This is an individual activity

   Alessia's Kitchen & Co. has 1.4 million shares of stock outstanding that sells for $20 / share. The firm's debt is publicly traded and was recently quoted at 93 % price. It has a total face value of $5 million, and it is currently priced to yield 11%. The risk-free rate is 8%, and the market risk premium is 7%. Finance department estimated the business beta of 0.74, and a tax bracket of 34%. Compute the WACC of If the corporate tax rate is 34 percent, what is the WACC of Alessia's Kitchen & Co.

   Present your calculations and results in VLE

Formative Assessment: Group Report Formative Submission Deliverable 2:
Submission of the group report to receive feedback in the Criteria 5.
Way of submission: VLE

Lesson 13

Activities:

1. Video Lecture
2. Direct question and response: According to different sources, the WACC for Starbucks Corporation (NASDAQ: SBUX) is 6.68%.
   Research on the internet and discuss:
   1. In 2021, does the business use more equity or debt financing?
   2. Mention two factors that could affect Starbuck's target capital structure. Use the slide 11 in the PPT as a guideline - provide specific examples like current worldwide low interest rates could benefit the business in using more debt than equity financing

   Discursion Board: Present the findings in a short paragraph in VLE

Formative Assessment: No Formative Assessment

Lesson 14

Activities:

1. Lecture
2. Individual Work
   Research on the internet the dividend policy of a public business of your

preference:
1. The name of the business, and the industry
2. The date, type and the amount of the two last dividends paid.
3. Compare the dividends paid by the most noticeable competitor (use the same periods)

Discursion Board: Present the findings in VLE in a short briefing – 1 paragraph

Formative Assessment: Dividend payments
Case Study 4: Dividend Payments

Analyse the following article: https://www.cnbc.com/2021/08/23/shareholder-payouts-to-hit-1point4-trillion-in-2021-nearing- pre-pandemic-levels.html and any other relevant reading that you consider will help you to prepare a short briefing addressing:

1. The article major findings, including the reason for the high dividend pay-out period.
2. In addition,
   a) Research in the internet the last dividend amount paid by one the top 5 dividend payer corporations referred in the article: Samsung, Nestle, Rio Tinto, Sberbank, or Sanofi
   b) Identify two of the highest growth industries, and the hardest hit one in terms of dividend pay-out due to Covid-19

Prepare a short 150-word report and submit in VLE

Lesson 15

Activities:

1. Video Lecture
2. Individual Case Study: **Berkshire Hathaway Inc. (BRK-A)**
   Research the business in all available resources like yahoo finance:
   a) The latest price of the stock: BRK-A
   b) The strategy behind the pricing, and critically analyse the factors for not splitting the stock.

   Discursion Board: Present the findings in VLE in a short briefing

Formative Assessment: Group Report Formative Submission Deliverable 3:
Submission of the group report to receive feedback in the Criteria 6.
Way of submission: VLE

Lesson 16

Activities:

1. Video Lecture
2. Individual Case Study: INDITEX
   Read the following HBR article and other relevant sources in the internet:
   https://digital.hbs.edu/platform-digit/submission/zara-achieving-the-fast-in-fast-fashion-through-analytics/
   Critically analyse Zara's inventory management success.

   Discursion Board: Present the findings in VLE in a short briefing

Formative Assessment: No Formative Assessment

Lesson 17

Activities:

1. Video Lecture
2. Individual Work: Country Case Study: Select a country of your preference (preferable your own country).

   Research and analyse:

   1. The country's FX risk – is there a limitation or exchange rate control
   2. Other risks inherent to the country – macroeconomic weaknesses

   Discursion Board - Present the findings in a short paragraph in VLE

Formative Assessment: Group Report Formative Submission Deliverable 4:
Submission of the group report to receive feedback in the Criteria 3.
Way of submission: VLE

Lesson 18

Activities:

1. Video Lecture
2. Direct question and response: The professor will post two questions per student and ask to answer them. It is a first come first serve activity.

Discussion Board in VLE

Appendix B Revision of Review Questions

Unit 1

Review class material PPT, and reference readings available in the syllabus for definitions and concepts. Use critical thinking when providing the real examples and possible solutions.

1. Financing, Capital Structure, Dividends, and Short Term Policies
2. Taxes as a disadvantage, and one benefit is the size for finding better business opportunities like bank loans
3. Shareholder's Profits mainly (sometimes a holistic welfare for all the stakeholders)
4. The shareholders are the owners, and the problem might arise when management and owner's goals are not aligned causing an Agency Problem.

Unit 2

1. The student must use research skills to locate the annual report of the business of their preference, look at the most important lines within the four financial statements, and carefully provide the answers. Information is available in the lesson PPT and the available reading.
2. Students must critically describe the reasons for recurrent negative cash flows. Usually is accepted for new businesses and start-ups, but carefully considered for a successful company that is rapidly expanding, for example, capital outlays will be large, possibly leading to negative cash flow. In general, what matters is whether the money is used according to the plan and wisely, with the proper controls.
3. To find owner's equity, the student must construct a balance sheet with excel

   Penguin Pucks, Inc.
   Consolidated Balance Sheet
   As of Nov 30, 2020

Assets:	Liabilities & Stockholder's Equity
CA $5,100	CL $4,300
NFA $23,800	LTD $7,400
	OE ??
TA $28,900	TL&OE $28,900

   We know that total liabilities and owner's equity (TL & OE) must equal total assets of $28,900. We also know that TL & OE is equal to current liabilities plus long-term debt plus owner's equity, so owner's equity is OE = $28,900 – 7,400 – 4,300 = $17,200

4. The student should build the income statement preferable with the use of an excel spreadsheet.
   Papa Roach Exterminators, Inc.
   Income Statement
   Dec 31, 2020
   The income statement for the company is:

Sales	$586,000
Costs	$247,000
Depreciation Expense	$43,000
EBIT	$296,000
Interest Expense	$32,000
EBT	$264,000
Taxes (35%)	$92,400

Unit 3

1. Credit analyst probable is more interested in debt ratios to assess if the business equity is not compromised, and might look and the cash flows indicators as source of cash for debt payments. Investors are probably more interested in returns given to the money indicators like ROE.
2. Financial ratio analysis is the technique of comparing the relationship (or ratio) between two or more items of financial data from a company's financial statements. Each ratio measures one particular interest. Limitations includes the fact that measures only past performance.
3. Both are tools for performance. Industry-specific ratio analysis are ratios for specific industry like sales per square foot, and financial ratio analysis involves selecting data from the business financial statements.

Unit 4

1. Fundamental analysis uses public data to evaluate the value of a business by using revenues, earnings, future growth, return on equity, profit margins, and other data to determine a company's underlying value and potential for future growth.
   Fundamental analysis helps identify the company which is best among its peers
   The Objectives of Fundamental Analysis is to make a projection on its business performance; To evaluate the management of the property and make internal financial decisions; to calculate credit risk of the asset; to find the intrinsic value of the property
2. Is the benchmark performance for similar businesses? It is widely use to compare performance between the industry and the business and take corrective actions.

Unit 5

1. Resources needed for long-term purposes, expansion, growth, and business survival within the competitors. The importance relies on the fact that a good planning can mitigate unforeseen or unexpected situations, and prepare businesses to be successful over the years by being competitive.
2. Internal and external growth main difference is the source of funding for the expansion: the business own sources or the use of external financing.
3.

Unit 6

1. Give the right value of money over time based in the assumption of some key variables like the rate of return or interest rate.
2. The student should calculate r based in the study material
   This is a single-period case, and from the basic present value equation, the present value is
   $1,250 = $1,350 / (1+r)^1
   1 + r = $1,350 / $1,250 = 1.08
   r = 8%

Unit 7

1. Depending of the view accounting or from the securities point of view. There are common shares and preferred shares.
2. In all the cases, the one that provides more benefit to the business by giving more revenues or less costs, or a combination of both.

Unit 8

1. Systematic risk refers to the risk inherent to the entire market, and is non-diversifiable, and it is called volatility, and a clear example can be inflation. Unsystematic risk refers to the risk of a business, its diversifiable some examples are competitors.
2. The volatility of a business compare to the market or systematic risk.

Unit 9

1. Material available in the lesson
2. Student should clearly express the rule for NPV investment decisions NPV>0 accept the project
3. The NPV of a project is the PV of the outflows minus the PV of the inflows.
   The equation for the NPV of this project at an 11 percent required return is:
   NPV = – $34,000 + $16,000/1.11 + $18,000/1.112 + $15,000/1.113 = $5,991.49
   At an 11 percent required return, the NPV is positive, so the business would accept the project.
   The equation for the NPV of the project at a 30 percent required return is:
   NPV = – $34,000 + $16,000/1.30 + $18,000/1.302 + $15,000/1.303 = –$4,213.93
   At a 30 percent required return, the NPV is negative, so the business would reject the project.

Unit 10

1. True or false?
   a. F
   b. T
   c. T

2. Explain how each of the following actions or problems can distort or disrupt the capital budgeting process
   a. Missing cash flow or return estimations forecast, biased
   b. Unstable project, not reliable

Unit 11

1. Debt, Equity, or Retained earnings
2. RS = 3.5% + (7% *1.2) = 11.9%
   The Expected Return of the new projects should 11.9%

Unit 12

1. The weighted average cost of capital (WACC) tells us the return that lenders and shareholders expect to receive in return for providing capital to a company, and is useful in determining whether a company is building or shedding value. Its return on invested capital should be higher than its WACC
2. 12.34%

Steps:
Cost of equity is CAPM = 8% + (.74 *7%) = 13.18%.
The pre-tax cost of debt is the current yield to maturity on the outstanding debt 11%.
The total value of the equity is $20 *$28 million = 1.4 million
The debt sells for 93% - current market value is .93 *$5 million = $4.65 million
The total market value of the equity and debt is $4.65 million + $28 million = $32.65 million
The percentage of equity used by the business to finance its operations is $28 million/$32.65 million = 85.76% and the percentage of debt is 1 - .8576 = .1424 or 14.24%
The WACC for Alessia's is: (E/V) *R E + (D/V) * R D * (1 - T C) = .8576 * 13.18% * .1424 * 11% * (1 -.34) = 12.34%

Unit 13

1. The optimal capital structure is the most efficient mix of debt and equity that minimizes the weighted average cost of capital (WACC) of a company while maximizing its market value
2. By raising the cost of capital, a higher corporate income tax reduces investment and the business economic growth

Unit 14

1. An investor needing current income like Pension Funds, or a retire worker. Probably a person or business sensitive to takes, or with an investment objective of growth not income.
2. Cash is liquid

Unit 15

1. Technically there is no effect
2. Taxes, Objectives, or Business Cycles are some examples. Please refer to the lesson to expand the knowledge.

Unit 16

1. Mainly timing in the uses of funds
2. Any answer related with maintaining the optimal inventory levels at an efficient cost
3. Sales or any other form of revenues

Unit 17

1. FX risk relates to currency exchange fluctuation for business operation in multiple countries. A volatile or control regime, can jeopardize value of the cash flow when repatriating
2. The explanation should be based in the timing when FX conversion and TMV is computed

Unit 18

Available within previous lessons