

UNIVERSITY OF KARACHI

CORPORATE FINANCE

BS – VII

Course Title : CORPORATE FINANCE

Course Number : BA (H) – 643

Credit Hours: 03

1. The Financial Environment

1. The Flow of Savings to Corporations

- The Stock Market
- Other Financial Markets
- Financial Intermediaries
- Financial Institutions
- Total Financing of U.S. Corporations

1.2. Functions of Financial Markets and Intermediaries

- Transporting Cash Across Time
- Liquidity
- The Payment Mechanism
- Reducing Risk
- Information Provided to Financial Markets
- The Opportunity Cost of Capital

2. The Time Value of Money

2.1 Future Values and Compound Interest

2.2 Present Values

- Finding the Interest Rate

2.3 Multiple Cash Flows

- Future Value of Multiple Cash Flows

- Present Value of Multiple cash Flows

2.4 Level Cash Flows Perpetuities and Annuities

- How to Value Perpetuities
- How to Value Annuities
- Annuities Due
- Future Value of an Annuity

2.5 Inflation and the Time Value of Money

- Real versus Nominal Cash Flows
- Inflation and Interest Rates
- Valuing Real Cash Payments
- Real or Nominal

2.6 Effective Annual Interest Rates

3. Valuing Bonds

3.1 Bond Characteristics

- Reading the Financial Pages

3.2 Bond Prices and Yields

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

- Variation in Corporate Bonds

4. Valuing Stocks

4.1 Stocks and Stock Market

- Reading the Stock Market Listings

4.2 Book Values, Liquidation Values, and Market Values

4.3 Valuing Common Stocks

- Today's Price and Tomorrow's Price
- The Dividend Discount Model

4.4 Simplifying the Dividend Discount Model

- The Dividend Discount Model with no Growth
- The Constant – Growth Dividend Discount Model
- Estimating Expected Rates of Returns
- Non-constant Growth

4.5 Growth Stocks and Income Stocks

- The Price Earning Ratio
- Valuing Entire Businesses

4.6 There are No Free Lunches on Wall Street

- Method 1 : Technical Analysis
- Method 2 : Fundamental Analysis
- A Theory to Fit The Facts

4.7 Behavioral Finance and the Rise and Fall of the Dot.Coms

5. Net Present Value and Other Investment Criteria

5.1 Net Present Value

- A Comment on Risk and Present Value

- Valuing Long Live Projects

5.2 Other Investment Criteria

- Payback
- Internal Rate of Returns
- A Closer Look and the Rate of Return Rule
- Calculating the Rate of Return for Long Lived Projects
- A Word of Caution
- Some Pitfalls with the Internal Rate of Return Rule

5.3 Mutually Exclusive Projects

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

5.4 Capital Rationing

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

5.5 A Last Look

6. Using Discounted Cash Flow Analysis to Make Investment Decisions

6.1

Discount Cash Flows, Not Profits

6.2 Discount Incremental Cash Flows

- Include all Indirect Effect

- Forget Sunk Costs
- Include Opportunity Cost
- Recognize the Investment in Working Capital
- Beware of Allocated Overhead Costs

6.3 Discount Nominal Cash Flows by the Nominal Cost of Capital

6.4 Separate Investment and Financing Decisions

6.5 Calculating Cash Flow

- Capital Investment
- Investment in Working Capital
- Cash Flow from Operations

7. Project Analysis

7.1 How Firms Organize the Investment Process

- Stage One : The Capital Budget
- Stage Two : Project Authorizations

Problems and Some Solutions

7.2 Some "What – If" Questions

- Sensitivity Analysis
- Scenario Analysis

7.3 Break Even Analysis

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

Operating Leverage

7.4 Real Options and the Value of Flexibility

- The Option to Expand
- A Second Real Option : The Option to Abounded
- A Third Real Option : The Timing Option

- A Fourth Real Option : Flexible Production Facilitie

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

8.1 Rate of Return: A Review

8.2 A Century of Capital Market History

- Market Indexes
- The Historical Record
- Using Historical Evidence to estimate Today's Cost of Capital

8.3 Measuring Risk

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

8.4 Risk and Diversification

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

8.5 Thinking about Risk

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

9. Risk, Return and Capital Budgeting

9.1 Measuring Market Risk

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

9.2 Risk and Return

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

9.3 Capital Budgeting and Project Risk

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

10. The Cost of Capital

10.1 Geothermal Cost of Capital

10.2 The Weighted-Average Cost of Capital

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

10.3 Measuring Capital Structure

10.4 Calculating the Required Rate of Returns

- The Expected Return on Bonds
- The Expected Return on Common Stock
- The Expected Return on Preferred Stock

10.5 Calculating the Weighted Average Cost of Capital

- Real Company WACCs

10.6 Interpreting the Weighted Average Cost of Capital

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

11. An Overview of Corporate Financing

11.1 Creating Value with Financing Decisions

11.2 Common Stock

- Ownership of the Corporation
- Voting Procedures

- Classes of Stock

11.3 Preferred Stocks

11.4 Corporate Debt

- Debt Comes in Many Forms
- Innovation in the Debt Market

12 Debt Policy

12.1 How Borrowing Affects Values in a Tax Free Economy

- MM's Argument
- How Borrowing Affects Earnings Per Share
- How Borrowing Affects Risk and Return
- Debt and the Cost of Equity

12.2 Capital Structure and Corporate Taxes

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

12.3 Costs of Financial Distress

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

12.4 Explaining Financing Choices

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

13 Dividend Policy

13.1 How Dividends are Paid

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

13.2 Share Repurchase

- The Role of Share Repurchases
- Repurchases and Share Valuation

13.3 How Do Companies Decide on Dividend Payments?

13.4 Why Dividend Policy Should Not Matter

- Dividends Policy is Irrelevant in Competitive Markets
- The Assumptions behind Dividend Irrelevance

13.5 Why Dividends May Increase Firm Value

- Market Imperfections
- Dividends as Signals

13.6 Why Dividends May reduce Firm Value

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

14 Financial Planning

14.1 What is Financial Planning

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

14.2 Financial Planning Models

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

14.3 Planners Beware

- Pitfalls in Model Design
- The Assumption in Percentage of Sales Models
- The Role of Financial Planning Models

15 Working Capital Management and Short-Term Planning

16 Cash and Inventory Management

17 Credit Management and Bankruptcy

Recommended Books:

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