



**International Institute of Administration and Business**  
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**Master in International Business**

**1<sup>st</sup> semester 2015/2016**

**Course Outline**

**Course: Fundamentals of Finance**

**Workload: 4 ECTS, 30 hours**

**Course Teachers and Contact Details:**

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**Course Description**

This is a basic course on Corporate Finance, mainly focused on understanding fundamental principles of finance and its application to real business. It covers such topics as financial statement analysis, capital budgeting and investment decisions, basics of valuation, etc. We strongly recommend taking Financial Accounting before this course.

**Reading Material**

Reading material consists of key book (1), optional books (2-3) and articles from top finance journals (the list will be provided at the first class).

1. Berk, DeMarzo, Harford. Fundamentals of Corporate Finance. Global Edition. 2nd Edition. Pearson Education Limited, 2012.
2. Investment Valuation: Tools and Techniques for Determining the Value of Any Asset (Wiley Finance) by Aswath Damodaran;
3. Principles of Corporate Finance, Concise (McGraw-Hill/Irwin Series in Finance, Insurance and Real Estate) by Richard Brealey, Stewart Myers and Franklin Allen.

**Grading Policy**

Final grading for this course (maximum grade for this course is 20 points) will be based on case study discussions (25%), analytic project (25%) and written final exam (50%). On case studies students work together in teams of 2-4, making final presentations of their analytic efforts.

**Tentative Course Outline**

**Class 1. Introduction to Corporate Finance.** What is modern financial analytical framework and how does finance contribute to corporate decision – making?



**Class 2. Financial Statements analysis.** Financial reports as a source of information about business. Main points in financial statements analysis.

*Case study on financial statement analysis.*

**Class 3-4. Risk and Return. Capital Asset Pricing Model.**

Types of risks. Systematic and specific risk. Principles of CAPM and measuring expected/required returns on capital. Risk-free rate and its specifics for different economies. Beta coefficient. Risk premiums. Global and Local CAPM. Premiums for size and liquidity.

*Case study. Identifying the required return on equity in western European and emerging market firm.*

**Class 5. Principles of Debt and Equity Valuation.**

Types of corporate debt financing instruments. Present value of bond's cash flows. Valuation of fixed income security. Measuring yield-to-maturity of a bond (YTM).

Equity vs. bond valuation. Discounted dividends model (DDM): cases for permanent and stable growing dividends. Corporate valuation framework: discounted cash flows. Free cash flow to firm. Free cash flow to equity. Pits and falls of various valuation methods and their practical application.

**Class 6-7. Capital Structure & Overall Cost of Capital**

Major principles for corporate capital structure choice/engineering, its influence on management decisions. Modigliani & Miller irrelevance propositions. The fundamental motives for capital structure choices: the Trade-off, the Pecking order explanation. Influence of agency – principal conflicts on capital structure. Weighted average cost of capital and its practical application. Optimal capital structure.

*Case study on capital structure.*

**Class 8-9. Investment Decisions.**

Net present value rule for decision-making. Internal rate of return. Discounted payback period. Profitability index. Choosing between investment alternatives, independent & mutually exclusive projects. Financial reports as a source of information for investors. Manipulations and most common mistakes in investment decisions.

*Case study on investment decision.*

**Class 10. Payout Policy.**

Types of corporate dividends: cash vs. stock dividends. What is dividend clientele and how it influences payout policies? Dividend policy in case of information asymmetry between firm and investors. Payout policies.