

FIN 250: Fundamentals of Corporate Finance

Full Marks: 100

Lecture Hours: 150

Pass Marks: 35

Course Objective

This course "*Fundamentals of Corporate Finance*" aims to provide students with basic understandings of fundamental concepts and principles of corporate finance. This course also equips the students with fundamental concepts, tools, techniques, and theories of corporate financial management which helps to prepare them to resolve complex financial issues of corporate firms.

Course Description

This course "*Fundamentals of Corporate Finance*" is about how effectively financial resources are raised and used in a business corporation. It helps students to learn effective management of financial resources in a corporate firm and equips them with the necessary skills to do so. This course includes the introduction to corporate finance, short-term financing, terms loan and lease financing, long-term financing, hybrid financing - preferred stock, warrants and convertibles, capital structure decision, financial planning and forecasting, international corporate finance and merger and acquisition.

Course Details

Unit 1: Introduction to Corporate Finance

LH 15

Corporate finance and financial manager; Financial manager's responsibilities; Managerial actions to maximize shareholder wealth; Corporate finance and other functional areas; The agency problem: stockholders versus managers and stockholders versus creditors; Ethics in financial decisions; Corporate governance and corporate social responsibilities.

Unit 2: Short-Term Financing

LH 20

Nature of short-term financing; Advantages and disadvantages; Sources of short-term financing: accruals, accounts payable (trade credit), commercial paper, short-term bank loans – line of credit, revolving credit arrangement, transaction loans; Choosing a bank; Comparison of cost of trade credit, commercial paper, and short-term bank loan; Use of security in short-term financing: inventory financing and accounts receivable financing; Factors affecting in choosing the appropriate sources of short-term financing.

Unit 3: Term Loans and Lease Financing

LH 15

Term Loans: Concept, cost and benefits, loan repayment schedule; Lease financing: concept, merits and demerits of lease financing, forms of lease financing, Analysis of lease versus buy/borrow decision using present value of cash flow approach; Lease financing in Nepal.

Unit 4: Long-Term Financing*LH 20*

Long term debt: Debt instruments, Features of long-term debts; Types of bonds; Bond innovations; Advantages and disadvantages of bonds; Common stock: Features of common stock; Legal rights and privileges of common stockholders; Advantages and disadvantages of common stock; Methods of selling securities: public offering, rights offering and private placement; Analysis of rights offering and effect of rights offering on shareholders' wealth; The investment banks and investment banking process; Ranking of different types of securities.

Unit 5: Hybrid Financing: Preferred Stock, Warrants and Convertibles**LH 15**

Preferred stock: Features and advantages and disadvantages; Warrants, reasons for using warrants, value of warrants, warrant premium; Convertibles, reasons for using convertibles, conversion ratio, conversion price, conversion value, straight bond value, minimum price of convertibles and conversion premium.

Unit 6: Financial Planning and Forecasting**LH 15**

Strategic planning; Operating plan and the financial plan; Sales forecast; Additional fund needed equation; Forecasted financial statements; Using regression to improve forecasts; Analyzing the effects of changes in ratios.

Unit 7: Capital Structure Decision**LH 10**

Capital structure and financial structure; Determining the optimal capital structure; The effect of capital structure on stock prices and the cost of capital; Capital structure and value of the firm.

Unit 8: International Corporate Finance**LH 20**

Nature of multinational corporations; Reasons for companies going global; Multinational versus domestic financial management; Exchange rates quotations; Cross rates; Interbank foreign currency quotations; Trading in foreign exchange rates: spot rates and forward rates; Interest rate parity; Purchasing power parity; Inflation, interest rates, and exchange rates; International money and capital markets; International capital budgeting; and International capital structure.

Unit 9: Merger and Acquisition**LH 10**

Rationale for mergers; Types of mergers; Level of merger activity; Hostile versus friendly takeovers; Merger analysis; Role of investment bankers; Corporate alliances; and Private equity investments.

Project Work**LH 10**

The students shall have to prepare and submit a project work in the area studied in the course. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis etc. relevant to the subject within 10 lecture hours.

Text Books

Ross, S. A., Westerfield, R. W. & Jordan, B. D. *Fundamentals of corporate finance*. New York: McGraw-Hill Irwin.

Brigham, E. F. & Houston, J. F. *Fundamentals of financial management*. Delhi: Cengage Learning.

References

Van Horne, J. C., Wachowicz, J. R. & Bhaduri, S. N. *Fundamentals of financial management*. New Delhi: Prentice-Hall India Ltd.

Brealey, R. A., Myers S. C. & Alen, F. *Principles of corporate finance*. New York: McGraw- Hill Irwin.

Gitman, L. J. *Principles of managerial finance*. Delhi: Pearson Education.