



Co-funded by the
Erasmus+ Programme
of the European Union



Reforming Master Programmes in Finance in Armenia and Moldova / REFINE

An Erasmus+ Capacity Building Project (2017-2020)

Modern issues of corporate finance overview

Armenian State University of Economics

Srbuhi Israyelyan



BASIC INFORMATION



TITLE OF THE COURSE	MODERN ISSUES OF CORPORATE FINANCE
TEACHER	SRBUHI ISRAYELIAN
YEAR OF THE COURSE	1st
SEMESTER OF THE COURSE	2nd
LANGUAGE	ARMENIAN
NUMBER OF ECTS CREDITS	5

LEARNING OUTCOMES



On successful completion of this course, student should be able to:

- Describe important empirical studies of dividend theories and memorize their implications for corporations.
- Give examples of alternative dividend policies adopted by corporations in practice and discuss it.
- Summarize and interpret the general concept of cost of capital.
- Use different techniques and methods to calculate the cost of capital.
- Discuss the pay-out policy and capital structure.
- Calculate and use in practice the WACC, marginal cost of capital and CAPM.
- Differentiate the risk of capital investment from the opportunity cost of capital.
- Analyze the relation between firm value and debt.
- Calculate financial leverage and firm value.
- Identify and comment different dividend policies of companies and dividend payment methods.
- Point out the impact of share repurchases on an investor's portfolio and company.
- Compare methods of valuing business.
- Differentiate the efficient market hypothesis.
- Differentiate types of interest rates and types of annuities.
- Contrast traditional and behavioral finance perspectives on portfolio construction and the behavior of capital markets.
- Debate the basics and principles of CFA Ethical and professional standards II, V, VI. and use it in practice.
- Evaluate the impact of the capital restructuring on the company's value.
- Measure cash flows of a company and develop a reliable capital budgeting system.
- Calculate the FV and PV of a single sum of money, an ordinary annuity, an annuity due, a perpetuity (PV only), and a series of unequal cash flows the effective annual rate, given the stated annual interest rate and the frequency of compounding.
- Calculate NPV and IRR of an investment, calculate a holding period return (total return), identify problems associated with the IRR rule.
- Calculate the money-weighted and time-weighted rates of return of a portfolio and evaluate the performance of portfolios based on these measures.
- Construct the main concepts, research tools and methodologies of behavioral finance.
- Formulate expected utility and prospect theories of investment decision making.

SYLLABUS OF THE COURSE



14 weeks	Content (Lectures)	Seminars
Week1	Theories of investor preferences	
Week2	Cost of capital	Seminar 1
Week3	Pay-out policy and Capital Structure	
Week4	Using WACC in Practice	Seminar 2
Week5	Dividends and Dividend Policy perspectives	
Week 6	Share repurchase Task Assignment 1	Seminar 3
Week 7	Presentation of Assignment 1 : Group work	
Week8	Ethical and professional standards	Seminar 4
Week 9	Efficient Markets	
Week 10	The behavioural finance perspective (CFA program)	Seminar 5
Week 11	Principles of Capital Budgeting Cash flow statements and cash flow analysis	
Week 12	The time value of money	Seminar 6
Week 13	Discounted Cash flow applications Task Assignment 2	
Week 14	Assignment 2 -presentation	Assignment 2- presentation



Theories of investor preferences

The purpose of this topic is to describe concepts and empirical evidence about three of the most widely discussed theories of dividend policy.

Topic covers:

- Bird-in-the-Hand Theory
- Dividend Irrelevance Theory (Modigliani – Miller theory)
- Tax Preference Theory

After completing this chapter students are able to:

- Describe important empirical studies of dividend theories and memorize their implications for corporations.
- Give examples of alternative dividend policies adopted by corporations in practice and discuss it.

The cost of capital



The purpose of this topic is to define the cost of capital taking into consideration the cost of sources of capital. Moreover, identify the models of calculating WACC, CAMP, and the marginal cost of debt and equity.

Topic covers:

- Introduction
- Determining the proportions of each source of capital that will be raised
- Estimating the marginal cost of debt and equity
- Calculating the WACC
- Calculating the CAMP

After completing this chapter students are able to:

- Summarize and interpret the general concept of cost of capital.
- Use different techniques and methods to calculate the cost of capital.
- Analyze the key factors influencing the cost of capital.
- Identify the differences between cost of each source of capital.
- Calculate the WACC, marginal cost of capital and CAPM.
- Differentiate the risk of capital investment from the opportunity cost of capital.

Seminar 1:

Interviews and discussions about the theories of investor preferences and cost of capital (brief, private, 10-minute interview of student).

Pay-out policy and Capital Structure



The main purpose of this topic is to establish guidelines for the effective management of pay-out and debt policies, to investigate the theories affecting the relation between firm value and debt.

Topic covers:

- Pay-out Policy (net income, dividends)
- Debt Policy (financial leverage)
- Optimal Capital Structure (financial leverage, Modigliani-Miller [MM] model I., MM II., bankruptcy costs)
- Valuing business

After completing this chapter students are able to:

- Discuss the pay-out policy and capital structure.
- Analyze the relation between firm value and debt.
- Calculate financial leverage and firm value.
- Differentiate optimal capital structure theories.
- Evaluate the impact of the capital restructuring on the company's value.
- Compare methods of valuing business.
- Differentiate the efficient market hypothesis.

Using WACC in Practice



The main purpose of this course is to improve and strengthen theoretical knowledge about WACC and demonstrate the usage of WACC in practice.

Topic covers:

- Some Tricks of the Trade.
- Mistakes People Make in Using the Weighted-Average Formula.
- Adjusting WACC When Debt Ratios and Business Risks Differ .
- Unlevering and Relevering Betas .
- The Importance of Rebalancing .
- The Modigliani–Miller Formula, Plus Some Final Advice .

After completing this chapter students are able to:

- Identify the features of calculating WACC .
- Evaluate an investment project using WACC.

Seminar 2:

Practical exercises about WACC.

Calculating WACC for different investment projects .

Dividends and Dividend Policy perspectives



The main purpose of this chapter is to discuss the theory and practice of corporate dividend policies and models, analyze the types of dividend payments.

Topic covers:

- Introduction to dividends
- Cash dividends & Dividend Payment
- Stock dividends & stock splits
- Types of dividend policy & dividend models
- Dividend policy & Stock Value

After completing this chapter students are able to:

- Describe the issues surrounding dividend policy decisions.
- Explain the differences between cash and stock dividends.
- Examine different dividend policies and models.
- Identify and comment different dividend policies of companies and dividend payment methods.

Share repurchases



The main purpose of this chapter is to discuss share repurchase policy and the theory for share repurchase valuation.

Topic covers:

- The role of share repurchases
- Repurchases and share valuation

After completing this chapter students are able to:

- Explain the role of share repurchases and outline why share repurchases are an alternative to dividends.
- Point out the impact of share repurchases on an investor's portfolio and company.

Task Assiementg 1

Seminar 3:

Interviews and discussions about dividends and dividend policy, share repurchases.



Assignment 1

Group work

“Analysis and Contrast of Dividend Policies of Two Companies”.



Ethical and professional standards

The main purpose of this topic is to describe concepts of Code of ethics one of the fundamental values of CFA Institute the ethical benchmark for investment professionals around the globe.

Topic covers:

- Standard II: Integrity of capital markets
- Standard V: Investment analysis, recommendations and actions
- Standard VI: Conflicts of interest

After completing this chapter students are able to:

- Debate the basics and principles of CFA Ethical and professional standards II, V, VI.
- Use standards in practice.

Seminar 4:

Interviews (brief, private, 10-minute interview of student about ethical and professional standards)



Efficient Markets

The main purpose of this topic is to give a note on conceptual framework of efficient market theories.

Topic covers:

- Differences between investment and financing decisions
- Random Walk
- Efficient Market Theory
- The Evidence Against Market Efficiency

After completing this chapter students are able to:

- Distinguish differences between investment and financing decisions.
- Differentiate the efficient market hypothesis.

The behavioural finance perspective (CFA program)



The main purpose of this topic is to describe concepts of behavioral finance: one of the fundamental values of CFA Institute

Topic covers:

- Overview and the history of behavioural finance
- Traditional finance vs. behavioural finance
- Utility theory and prospect theory
- Capital markets and portfolio construction
- The behavioural biases of individuals

After completing this chapter students are able to:

- Construct the main concepts, research tools and methodologies of behavioral finance.
- Contrast traditional and behavioral finance perspectives on portfolio construction and the behavior of capital markets.
- Formulate expected utility and prospect theories of investment decision making.

Seminar 5:

Interviews (brief, private, 10-minute interview of student about efficient markets)
Behavioral Finance concept checkers (tests with multiple choices)

Capital Budgeting, cash flow analysis



The main purpose of this topic is to provide a concise overview of capital budgeting analysis and cash flow analysis.

Topic covers:

- Principles of capital budgeting
- Capital budgeting and project risk
- Overview of cash flow statements.
- Cash flow analysis.

After completing this chapter students are able to:

- Describe the process flow for capital requests.
- Measure cash flows of a company
- Develop a reliable capital budgeting system.



The main purpose of this topic is to provide a foundation topic in investment mathematics, the time value of money.

Topic covers:

- The present value of a series of cash flows
- Solving for rates, number of periods, or size of annuity payments

After completing this chapter students are able to:

- Demonstrate the use of a time line in modeling and solving time value of money.
- Calculate the FV and PV of a single sum of money, an ordinary annuity, an annuity due, a perpetuity (PV only), and a series of unequal cash flows the effective annual rate, given the stated annual interest rate and the frequency of compounding.
- Calculate and interpret the effective annual rate, given the stated annual interest rate and the frequency of compounding;
- Solve time value of money problems for different frequencies of compounding.
- Differentiate types of interest rates and types of annuities.

Seminar 6:

Practice exercises , discussions about cash flow analysis and the time value of money.

Discounted Cash flow applications



The main purpose of this topic is to describe the concepts of PV, NPV, and IRR to the fundamental problem of valuing investments, examine the fundamental problem of calculating the return on a portfolio subject to cash inflows and outflows.

Topic covers:

- NPV, IRR
- Portfolio return measurement (money-weighted rate of return, time-weighted rate of return)

After completing this chapter students are able to:

- Contrast the NPV rule to the IRR rule, and identify problems associated with the IRR rule.
- Calculate NPV and IRR of an investment.
- Calculate a holding period return (total return), identify problems associated with the IRR rule.
- Calculate the money-weighted and time-weighted rates of return of a portfolio and evaluate the performance of portfolios based on these measures.

Task Assignment 2

Week 14



Assignment 2 presentation

TEACHING METHODOLOGY



The following pedagogical approaches are used:

- Student-Centered Approach to Learning .
- High Tech Approach to Learning.

The following methods and forms of study are used in the course:

- lectures (2 hours a week).
- seminars (2 hours per two weeks: interviews, practical exercises, discussions, concept checkers, assignments and case presentation).
- group work.
- self study.
- current control and grading include: participation in classwork, interviews, group work results and case presentations.
- intermediate control includes mid-term exam (individual tests- 30 qq with multiple choices).
- final oral exam (exam tickets with theoretical and practical qq).

LABOUR MARKET RELEVANCE



Corporate finance is the study of a business's money-related decisions, which are essentially all of a business's decisions. The principles of corporate finance affect every decision maker in a corporation, whether they're making high-level calls on acquisitions or investments, or choosing a vendor to service the soft-drink machine in the break room.

Employment of financial managers is projected to grow 19 percent from 2016 to 2026, much faster than the average for all occupations.

Services provided by financial managers, such as planning, directing, and coordinating investments, are likely to stay in demand as the economy grows.

Outcomes of WP1.

- Capacity for applying knowledge in practice (18.2%),
- Ability to work autonomously (10.6%)
- Research skills (9.1%)
- Financial analysis
- Reporting (12.1%),
- Securities (10.6%)
- Accounting standards and techniques (9.1%).

The subject of this course covers part of market demand and its also covers part of CFA exam topics, which means that after completing the course the students will have basis for CFA exam and practical skills to be competitive for labour market.



Assesment		
	Performance	Grade ratio
Class attendance, participation and Interviews (brief, private, 10-minute interview of student), homework exercises, concept checkers (tests with multiple choices)	40-100	15%
Group works (slide presentations)	40-100	15%
Case study	40-100	20%
Mid-term exam	40-100	10%
Final oral exam	40-100	40%

Performance and grade			
Percentage	Criteria	Grading numbers	Grade
0-39%		D	insufficient
40-70%	basic criteria met	C- C C+	Sufficient
71-85%	average performance with some errors	B- B B+	Good
86-95%	above average performance with minor errors	A- A	Very good
96-100%	outstanding performance	A+	Outstanding



REFERENCES

- Fundamentals of Corporate Finance 8th Edition by Richard A Brealey, Stewart C Myers, McGraw-Hill Education; 8 edition, 2014, 800 pages.
- Principles of corporate finance, Richard A. Brealey, Stewart C. Myers McGraw-Hill/Irwin, 2011, 944 pages.
- The CFA Program curriculum books.

COURSE ASSIGNMENT 1



Group work

“Analysis and Contrast of Dividend Policies of Two Companies”.

The main purpose of this assignment is to.

- develop a host of skills that are increasingly important in the professional world
- get experience of working in group or teams
- improve and strengthen theoretical knowledge about dividend policy .

COURSE ASSIGNMENT 2 (CASE STUDY DESCRIPTION)



Case study

Case study on UNIBANK's IPO

After presenting the case of UNIBANK's IPO, students will have a task to answer these questions (students will be divided into groups (each group will consist of 4-6 students)):

- How Unibank organized IPO of its shares?
- What is the current situation after IPO?
- What is the main idea and goal to make IPO in Armenian Economy, and what are the future benefits of it for UNIBANK?
- What are the lessons to learn from the case of Unibank?



THANK YOU FOR YOUR ATTENTION

E-mail: srbuhi.israyelyan@gmail.com