VNIVERSITAT DE VALÈNCIA

Course Guide
35945 Corporate Financing

COURSE DATA

Data Subject	
Code	35945
Name	Corporate Financing
Cycle	Grade
ECTS Credits	6.0
Academic year	2020 - 2021

Study (s)

Degree	Center	Acad. year	Period
1315 - Degree in Finance and Accounting	Faculty of Economics	3	First term
1328 - Degree in Finance and Accounting (Ontinyent)	Faculty of Economics	3	First term

Subject-matter

Degree	Subject-matter	Character
1315 - Degree in Finance and Accounting	15 - Foundations of corporate finance	Obligatory
1328 - Degree in Finance and Accounting (Ontinyent)	15 - Foundations of corporate finance	Obligatory

Coordination

Name	Department
MARTINEZ LOBATO, MARIA FUENCISLA	172 - Business Finance

SUMMARY

Corporate financing is a 6 ECTS credit compulsory subject located in the Finance module and, within it, in the subject of Fundamentals of Corporate Finance. Within the temporary distribution of the subjects in the degree in Finance and Accounting it is located in the first term of the third year.

This subject is the logical continuation of the subject *Analysis and valuation of business investment*, which is taught in the second term of the second year in the same grade. Once the study of the decisions of the company in the field of productive investments in this last subject has been addressed, in *Corporate Financing* the financing sources available to the company to carry out said investments and its consequences in the company's value are studied. For this, first, basic concepts are introduced, such as

the differentiation between internal and external financing, the financing methods available to the company based on its size, the different types of assets available to the company to obtain funds and the characteristics of the markets to which you can go in search of financing. Next, we analyse the impact that the financing decision has on the value of the company, both in terms of whether or not it is indifferent to the use of own or third-party resources, and how to remunerate the company owners, since this decision affects the volume of internal resources available in the future. Finally, the relationship between investment decisions and financing regarding the creation of value in the company is studied, objective raised in the subject *Analysis and valuation of business investment* as the one that should be pursued by any company.

The contents that are dealt with in the subject *Corporate Financing* are closely related to the subject *Financial planning and management* (first term of the fourth year) and to the study of the financial markets that is approached in the subject of Markets and Financial Assets, formed by the subjects Markets and Assets of Variable Income (first term of the third year) and Markets and Assets of Fixed Income (second term of the third year).

For the development of the concepts of the subject the student must have a series of knowledge and tools acquired in the subjects *Financial Accounting I* (second term of the first year), *Financial Accounting II* (second year), *Financial Mathematics* (first term of the second year) and *Analysis and valuation of business investment* (second term of the second year).

As already mentioned above, the central axis of this subject is the financing decision of the company, both in the aspect related to the instruments available and the effect on the value of the company is the same. To do this, we initially divided financing sources into two main groups: internal sources (also called “self-financing” and sources external to the company).

After analysing the self-financing of the company and the effects that derive from it, the Spanish financial system is presented as a preliminary step to address the study of financing sources external to the company.

For methodological reasons, it is first of all external financing related to the issuance of securities by the company, both those that are representative of the property of the company (shares) and those representative of debt (obligations). In addition, the markets in which these types of securities are issued and the procedures for this are studied. Secondly, the credit market is analysed, that is, external financing that is not represented in securities, both in the short term and in the long term. Finally, given its importance in the economy, we devote our attention to a series of instruments specifically designed for financial support to SMEs.

Once presented the financial sources of the company, we focus on the effect that the financing decision has on the value of the company. To do this, different theories that aim to relate the degree of indebtedness of the company to its value are studied. In this context there is the impact of the shareholders compensation decision (dividend policy) since the decision of the amount and the form of remuneration affects the future financial capacity of the company.

In order to establish a bridge between investment decisions, studied in the subject *Analysis and valuation of business investment*, and financing decisions, studied in this subject, we analyse how to measure value changes in the company when both decisions are combined.

Without detracting from the importance that professional experience has in the financial management of the company, it is essential to be able to respond to changes in the economic environment to know the basic theories that concern finance. Therefore, it is necessary that students understand why companies and markets behave in a certain way, that is, they need to know the theoretical foundations of investment decision making and financing and how, through these decisions, to increase the market value of the company.

PREVIOUS KNOWLEDGE

Relationship to other subjects of the same degree

There are no specified enrollment restrictions with other subjects of the curriculum.

Other requirements

No enrolment restrictions have been specified with other subjects of the curriculum.

The prior knowledge that students must possess to successfully face the subject are related to investment decisions, accounting, statistics, and financial mathematics. Specifically, for the development of the concepts of the subject the student must have a series of knowledge and tools acquired in the subjects of Financial accounting I (second term of the first year), Financial accounting II (second year), Financial mat

OUTCOMES

1315 - Degree in Finance and Accounting

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- Conocer los instrumentos de soporte financiero para las empresas y sus implicaciones sobre el valor.

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LEARNING OUTCOMES

As a result of the learning process, the student will know concepts such as:

1. Basic knowledge of the Spanish financial system.

2. Ability to determine the consequences of self-financing in the company.

3. Knowledge of the assets that the company can issue for financing.

4. Ability to analyse and assess the consequences on the value of the company of the financing decision in perfect and imperfect markets.

5. Ability to understand the consequences of the different dividend policies of the company.

6. Ability to apply analytical techniques for joint assessment of investment and financing decisions.

DESCRIPTION OF CONTENTS

1. LESSON 1. INTERNAL FINANCING OR SELF-FINANCING

1.1. Concept and types of self-financing
1.2. Self-financing of maintenance
1.3. Self-financing of enrichment
1.4. Advantages and disadvantages of self-financing

Lassala et al. (2006), chap. 1

2. LESSON 2. THE SPANISH FINANCIAL SYSTEM

2.1. Concept, characteristics and functions of a financial system
2.2. Financial assets
2.3. Financial institutions
2.4. Financial markets

Lassala et al. (2006), epigraph 2.1
Rodríguez et al. (2008), chap. 2

3. LESSON 3. EXTERNAL FINANCING: ISSUANCE OF NEGOTIABLE SECURITIES

3.1. Primary or issue market: participating agents and assets exchanged
3.2. Procedures for the issuance of negotiable financial assets
3.3. Shares: characteristics and typology
3.4. Bonds: characteristics and typology

Lassala et al. (2006), sections 2.2, 2.3 and 2.4
Rodríguez et al. (2008), epigraph 13.3

4. LESSON 4. EXTERNAL FINANCING: CREDIT MARKET

4.1. Credit market
4.2. Short-term operational debts
4.3. Short-term negotiated debts
4.4. Medium and long-term debts

Lassala et al. (2006), chap. 4
Rodríguez et al. (2008), sections 7.1, 8.1, 9.1, 9.2, 10.2, 10.5, 10.6, 12.1 and 12.2

5. LESSON 5. FINANCIAL SUPPORT INSTRUMENTS FOR SMEs

5.1. Reciprocal Guarantee Societies
5.2. Venture capital
5.3. Participation debt
5.4. The ICOPyme financing line

Lassala et al. (2006), epigraph 4.6

6. LESSON 6. CAPITAL STRUCTURE

6.1. Financing decisions and efficient markets
6.2. The propositions of Modigliani and Miller in perfect financial markets
6.3. Capital structure and taxes
6.4. Optimal capital structure: Trade-off Theory
6.5. Additional consequences of leverage: agency and information costs

Brealey, Myers and Allen (2010), chap. 17 and 18
Brealey, Myers, Allen and Mateos (2010), epigraph 13.1 and chap. fifteen
Berk et al. (2010), 15

7. LESSON 7. DIVIDEND POLICY

7.1. How companies remunerate their shareholders
7.2. Dividend policy in a perfect capital market
7.3. Signals of the dividend policy
7.4. Dividend policy in an imperfect capital market

Brealey, Myers and Allen (2010), chap. 16
Brealey, Myers, Allen and Mateos (2010), chap. 16
Berk et al. (2010), 16

8. LESSON 8. INTERRELATION BETWEEN INVESTMENT AND FINANCING DECISIONS

8.1. Effect of financing decisions on expected net cash flows and on the discount rate
8.2. The adjusted present value method
8.3. The weighted average cost of capital method
8.4. The shareholder cash flow method

Brealey, Myers and Allen (2010), chap. 19

WORKLOAD

ACTIVITY	Hours	% To be attended
Theory classes	30,00	100
Computer classroom practice	15,00	100
Classroom practices	15,00	100
Attendance at events and external activities	5,00	0
Study and independent work	50,00	0
Readings supplementary material	5,00	0
Resolution of case studies	30,00	0
TOTAL	**150,00**	

TEACHING METHODOLOGY

Given the size of the groups, in the theoretical classes the basic methodology to use is the master class, although debate and the participation of students in it will be encouraged. The objective is to transmit the theories and models related to the Financial Management of the company, in such a way that students obtain the theoretical bases necessary for the later practical reasoning in financial terms. In practical classes, problems and cases will arise in the field of the subject with the objective that students are able to synthesise the relevant information and, from this, understand and solve the problems related to the corporate financing decisions of the students. The practical classes that take place in the computer classroom are complementary to the practices described above. These sessions will allow us to broaden the complexity and realism of the issues addressed through the use of specific programs and technologies.

EVALUATION

In order to evaluate the learning of the subject, a diversified evaluation system will be used, which will make it possible to highlight the knowledge and skills acquired by the students.

On the one hand, a synthesis test (written exam) that will consist of a battery of test questions and practical exercises. With the test type questions, the student's general knowledge of the subject is determined, while the practical exercises are intended to assess the student's ability to synthesise the relevant information and apply the theoretical knowledge to solve the problems posed. In this synthesis test, the maximum grade of each part (theoretical and practical) will be specified and a minimum grade will be required in each of them as a necessary requirement to make the sum of the grades obtained in both parts. The synthesis test will be 80% of the final grade of the subject.

On the other hand, the remaining 20% of the grade will be the continuous evaluation. This will be formed, on the one hand, by the grade students obtain as a result of the realisation of small controls that will be done in the classroom at the end of the explanation of each topic. To obtain a good result in these small controls, it is enough for the student to pay attention to the class explanations and progressively devote some time to the comprehension and learning of the taught subject. Likewise, on the other hand, the continuous evaluation will also be the result of the evaluation of other formative activities that the teacher determines throughout the course, such as: tasks and practical exercises, active attendance to conferences, as well as assistance and student’s active attitude in the classroom (the latter is not mandatory or essential to pass the subject).

The purpose and nature of these continuous assessment tests is to encourage and evaluate the work and progressive and continuous learning of the student throughout the course, as specified in Article 6 point 3 of the Regulation of Evaluation and Qualification of the University of Valencia for degree and master's degrees, which states: “Continuous evaluation is one of the basic criteria of teaching programming, and must be understood as a tool of the teaching-learning process that informs students on their progress and values it”. Given the finalist nature of these continuous assessment tests, they will not be recoverable on second call.

In any case, it will be an essential requirement to have passed the synthesis test so that the grade obtained in the continuous assessment is computed. If in the first call the synthesis test is not passed, the continuous evaluation grade will be saved for the second call.

The rating system will be expressed by numerical rating in accordance with the provisions of art. 5 of R.D. 1125/2003, of September 5, which establishes the European system of credits and the system of qualifications in university degrees of an official nature and validity in the national territory.

REFERENCES

Basic

- BERCK, J., DEMARZO, P. y HARDFORD, J. (2010): Fundamentos de Finanzas Corporativas. Pearson. Madrid.
- BREALEY, R., MYERS, S. y ALLEN, F. (2010): Principios de Finanzas Corporativas. McGraw-Hill. Madrid.
- BREALEY, R., MYERS, S., ALLEN, F. y MATEOS, P. (2010): Finanzas Corporativas. McGraw-Hill. Madrid.
- LASSALA, C., MEDAL, A., NAVARRO, V., SANCHIS, V. y SOLER, A. (2006): Dirección Financiera II. Pirámide. Madrid.
- CUERVO, A., RODRÍGUEZ, L., CALVO, A. y PAREJO, J.A. (2010): Manual del Sistema Financiero Español. Ariel.

Additional

- GÓMEZ, A.R., PIÑOL, J.A., REIG, A. y RODRIGO, A. (2006): Teoría de la Financiación II. Pirámide. Madrid.
- ROSS, S.A., WESTERFIELD, R.W. y JAFFE, J.F. (2003): Finanzas corporativas. McGraw Hill, México

ADDENDUM COVID-19

This addendum will only be activated if the health situation requires so and with the prior agreement of the Governing Council

1. CONTENTS

All the contents initially programmed in the teaching guide are maintained, adapting them to the hybrid teaching methodology: no face-to-face in the theoretical classes and face-to-face in the practical classes.

2. VOLUME OF WORK AND TEMPORARY PLANNING OF TEACHING

Maintenance of the teaching planning in both days and hours guided by the schedule and instructions of the teaching staff.

3. TEACHING METHODOLOGY

Regarding the teaching methodology in the theoretical classes of a non-presential nature, the following tools will be used:

- Synchronous videoconference through the creation of the task "Videoconference" in the virtual classroom and its execution through the Blackboard Collaborate platform on the day and at the time officially assigned for the theoretical class in question.

- Availability in the virtual classroom of theoretical materials.

Regarding the teaching methodology in the practical classes, given its face-to-face character, it will be the one commonly used.

Regarding tutorials, if the necessary security measures can be maintained, they will be carried out as usual in the office in person. Likewise, email will be used, if the teacher is adhered to this type of tutoring.

4. EVALUATION

The weights of the different parts of the evaluation system established in the original teaching guide are modified. Thus, the continuous evaluation becomes 50%, and the final test results with a weight of 50%.

The continuous evaluation will be made up of different tests conducted by each teacher through the virtual classroom (online questionnaires, activities and exercises to be solved and delivered on time in the "Task" section of the virtual classroom, etc.).

In the case of not passing the continuous evaluation, only a part will have the recoverable condition. Specifically, only the part taken through online questionnaires can be recovered, as long as the student has not reached 50% of the maximum score assigned to them. The recovery of this part will be implemented giving more weight to the final exam done by the student in question. The rest of the continuous assessment, made up of activities and exercises to be solved and delivered within a specified period during the course, will not be recoverable.

5. BIBLIOGRAPHY

The recommended basic bibliography is maintained.