

Code

6 ECTS

Corporate Finance

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### Introduction

This is an introductory course on corporate finance with a focus on capital structure, liquidity and payout policy, and capital budgeting. It comprises a mix of lectures, seminars and case studies.

We first analyze the capital structure decision in a setting of perfect capital markets in which all securities are fairly priced, there are no taxes or transactions costs, and the total cash flows of the firm's projects are not affected by how the firm finances them. We then examine the impact of taxes and of other frictions on the capital structure decision to explain the observed differences in capital structure across firms and industries.

We then shift the attention to liquidity and payout policy and to how these policies are shaped by market imperfections, such as taxes, agency costs, transaction costs, and asymmetric information, just as capital structure is. We discuss why some firms pay dividends and some do not, and why some firms prefer share repurchases.

Next, we investigate the complexities of capital budgeting, how to estimate the appropriate cost of capital, and also how the financing decision can affect the cost of capital and cash flows. We introduce the three main methods for capital budgeting with leverage and market imperfections: the weighted average cost of capital (WACC) method, the adjusted present value (APV) method, and the flow-to-equity (FTE) method.

Finally, we investigate issues related to short-term financial planning and working capital management.

### Objectives

The main objective of this course is to give students the ability to apply, in real world situations, the theoretical models and practical techniques for the optimization of corporate financial decisions and the estimation of the value of a corporation.

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### Required Background Knowledge

Undergraduate knowledge of corporate finance, accounting and asset pricing is useful but not essential.

### Learning Outcomes

The main learning outcomes of this course are

- i. Understand the theories of optimal capital and debt structure
- ii. Assess the optimal payout/dividend policy for the firm
- iii. Assess the optimal liquidity policy for the firm
- iv. Estimate the value of a firm using standard discounted cash flow methods
- v. Understand how firms manage their short term financing and working capital needs

### Methodology

The course comprises lectures, seminars and case studies. Cases require significant in depth preparation, always including non-trivial calculations. You are expected to participate constructively in class discussions.

### Evaluation

25% of the grade is based on the final exam and 75% (6 cases handed in X 5% of the grade each, 3 cases presented X 15% of the grade each) is based on presentations/hand-in of business cases and participation in class. Presentations are done in groups. However, grading is done on an the basis of individual performance. To pass the course students need a minimum grade of 6/10 in the final exam.

During the course problems sets will be distributed as individual homework. Solutions to the problem sets will be provided and discussed in the seminars with the teaching assistant. The problem sets will not be graded.

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### Course contents

Session	Content	Chapter BDM 4 <sup>th</sup> Edition
1	Lecture: Introduction to Financial Statements	Ch 02
2	Lecture: Fundamentals of Capital Budgeting Work in class: Case Hannson (Useful: Ch 07 of BDM)	Ch 07-08
3	Lecture: Fundamentals of Capital Budgeting Presentations: Case Hannson	Ch 07-08
4	Lecture: Valuing stocks Work in Class: Case Teuer A	Ch 09
5	Lecture: Valuing stocks Work in Class: Case Teuer A	Ch 09
6	Lecture: Estimating the Cost of Capital Presentations: Case Teuer A	Ch 12
7	Lecture: Estimating the Cost of Capital Work in Class: Case Teuer B	Ch 12
8	Lecture: Capital Structure Presentations: Case Teuer B	Ch 14
9	Lecture: Capital Structure Work in Class: Case Blaine Kitchenware	Ch 14
10	Lecture: Capital Structure Work in Class: Case Blaine Kitchenware	Ch 15
11	Lecture: Capital Structure Presentations: Case Blaine Kitchenware	Ch 16
12	Lecture: Payout Policy Work in Class: Case Apple Financial Policy	Ch 17
13	Lecture: Payout Policy Work in Class: Case Apple Financial Policy	Ch 17
14	Lecture: Capital Budgeting and Valuation with Leverage Presentations: Case Apple Financial Policy	Ch 18
15	Lecture: Capital Budgeting and Valuation with Leverage Work in Class: Case Generating Value at IBM	Ch 18
16	Lecture: Valuation and Financial Modelling Presentations: Case Generating Value at IBM	Ch 19
17	Lecture: Valuation and Financial Modelling Work in Class: Case MW Petroleum A and B	Ch 19 - 22
18	Lecture: Working Capital Management Presentations: Case MW Petroleum A	Ch 26
19	Lecture: Short Term Financial Planning Work in Class: Case Jones Electricals	Ch 27
20	Presentations: Case Jones Electricals Presentations: Case MW Petroleum B Wrap Up	

### Bibliography

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A number of cases and slides will be distributed with the course pack. The main reference book for the course is

- Jonathan Berk and Peter DeMarzo, *Corporate Finance*, Fourth Edition, 2016, Pearson Prentice Hall.

The latest editions of the following books offer additional reference for the various topics discussed in class.

- Aswath Damodaran, *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*
- Richard A. Brealey, Stewart C. Myers, Franklin Allen: *Principles of Corporate Finance*
- Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, *Corporate Finance*
- Aswath Damodaran, *Applied Corporate Finance*

### Professor's Biography

Filippo Ippolito is Associate Professor of Finance at Universitat Pompeu Fabra and research affiliate at the Centre for Economic Policy Research (CEPR), London, and Director of the Master in Finance at the Barcelona Graduate School of Economics. Prof Ippolito holds a PhD in finance from Said Business School, Oxford, and an MPhil in Russian and Eastern European Studies from the University of Oxford. He has industry experience in the financial and consulting sectors. His research focuses on corporate debt, capital structure, corporate liquidity management and private equity. Prof Ippolito has published in the *Journal of Finance*, *Journal of Financial Economics*, *Journal of Monetary Economics*, *Journal of Financial Intermediation*, *Journal of Money, Credit and Banking*, and *Journal of Corporate Finance*.