



INSTITUTE
OF ECONOMIC STUDIES
Faculty of Social Sciences
Charles University

Financial Management

Spring Term

Professor: [Mgr. Alina Cazachevici](#)
[Mgr. Barbora Malinská](#)
[prof. Ing. Michal Mejstřík, CSc.](#)

Office hours: by personal arrangement
Contact: mejstrik@fsv.cuni.cz
Course Code: JEB045

Course Description:

The course is intended for undergraduate students and focuses on the basic issues of financial management and corporate finance. At the beginning, some terms of corporate finance will be presented (financial analysis of the company's statements, criteria for investment decisions under risk conditions, etc.). As a background to corporate finance, a present value "PV" of cash flows is outlined (the concept of PV is important for the calculation of the price of bonds and shares, project evaluation, for calculation of duration, etc.). Furthermore, terms such as compound and simple interest and discount factor will be clarified. Further lectures will present a basic model of the capital market - capital asset pricing model (CAPM), security market line (SML) and its shifts as a result of risk aversion and inflation. The last part of the course deals with the calculation and application of α , β - coefficients for estimating the price of common stocks and bonds which are used in analyzing companies' financial costs. This approach permits integration of various financing alternatives with respect to cost of capital (weighted average costs of capital - WACC).

Structure:

The structure of this course will be divided between lectures and seminars. Lectures as well as seminars will meet once per week for 1.5 hours.

Instructions:

Target Audience: Students are strongly recommended to take a financial accounting course before they take the Financial Management course.

Please contact the IEF staff to learn more about the instructions for this course, including meeting times and how to register.

Requirements:

To be allowed to take the oral exam students must collect at least 25 points out of 50 from the written exam and at least 55 points from the possible total of 100. Bonus points are considered only after fulfilling the above condition.

Academic Honesty:

Although the students are encouraged to exchange ideas in and outside class, everybody is required to submit their own work. That means that copying the work of other students or published materials is strictly prohibited.

Grading System:

Equity report including analysis and valuation of a company 40 points

Presentation of equity report 10 points

Final written examination 50 points

Oral examination

To be allowed to take the oral exam students must collect at least 25 points/50 from the written exam and at least 55 points from the possible total of 100. Bonus points are considered only after fulfilling the above condition.

Course Content:

1. Introduction and fundamental terms: basic legal framework and goals of business -- value creation for shareholders and other goals, price and tax environment of business, short-term and long-term financial needs of a firm, internal and external sources, a definition of money, financial market and intermediation and its instruments in the CR and the EU, savings vs. investments (inter-temporal model), implication of the present value's concept for managerial governance

2. Financial statements and their analysis. Analysis of the corporate position and financial projection: ratios relating to the corporate goals, ratios of profitability, solvency and capital structure, ratios based on the accounting and non-accounting sources, application of financial analysis and financial projection"

3. Present value, simple and compound interest, discounting, frequency of interest -- continuous, annual, nominal and effective interest rate, perpetuity and annuity, feature of additivity

4. Capital budgeting -- application of the present value ("PV") for project evaluation, investment decisions under rule of the net present value vs. other criterions: the payback period rule, internal rate of interest and its modifications, estimation of cash flows, project interactions, capital rationing model (BM-Chapter 6)

5. Application of PV for valuation of firms and securities, PV of bonds and shares -- prompt and future price, DCF models, a console and a standard bond, valuation of common shares, models with constant

growth

6. Dividends versus growth opportunities, sensitivity analysis of prices of shares and dividends politics, corporate governance for the second time -- majority vs. cumulative voting

7. Risk, return, alternative costs of capital and liquidity, components of return of a individual security, capital market and measuring portfolios risk, relationship between risk and return, selection of the optimal portfolio, capital asset pricing model ("CAPM") and its assumptions, α , β -- coefficients, security market line ("SML")

8. Corporate-financing decisions and efficient capital markets -- three forms of efficiency and its evidence, types of corporate financing, issuing equity securities

9. Capital budgeting, capital structure and costs of capital, leverage and β -- coefficient. Summary of cost calculations of various instruments of long term financing (costs of debt, preferred and common stocks, retained profit etc.)

10. Weighted average costs of capital ("WACC"), the initial and objective capital structure in the book and market value. Free cash flow for the shareholders and for the firm as a whole, valuation of the whole (indebted or leveraged) firm and the unindebted firm. Valuation models with multiples of ratios.

11. Debt policy, optimal capital structure and valuation of a firm, perfect and imperfect capital market (MM model), earnings and debt policy, taxes and capital structure, costs of financial distress, interaction between financial and investment decisions, valuation of the unindebted firm and its independence from its dividends policy.

12. Debt financing: valuation of a risk\ debt, kinds of debt, security, leasing

13. Short-term decisions and management of working capital, commercial credit instruments, cash management, short-term lending and borrowing

case studies will be added.

Reading Materials:

Required:

Brealey R.A., Myers S.C.: *Principles of Corporate Finance*, 9th edition, McGraw-Hill, 2007 (or in Czech from Computer Press Praha 2000 (5.vyd)

Supplementary:

Bodie Z., Merton R., *Finance*, Prentice Hall New Jersey, 2000, ISBN 0-13-310897-X

Buckley A., Ross S., Westerfield R., J.F. Jaffe, *Corporate Finance Europe*, McGrawHill, 1998

Shapiro A., Balbier S., *Modern Corporate Finance*, Prentice Hall London