AFIN102 - Business Finance II

Course Title	Business Finance II				
Course Code	AFIN102				
Course Type	Compulsory				
Level	BA (Level 1)				
Year / Semester	1st year/ Spring				
Teacher's Name	Dr Nicos Koussis / Dr Michalis Makrominas				
ECTS	6	Lectures / week	3	Laboratories/week	
Course Purpose	The purpose of the course is to expand on the knowledge developed in the introductory module. In particular, the course focuses on implementing detailed cash flow statements, net present value analysis for investment appraisal, projects with different useful lives and the determination of the optimal timing of investment. We also focus on different valuation methods of shares including the dividend discount model, discounted cash flow and the price to earnings method.				
	An important part of course is devoted in financial planning using financial ratios of firms and to be able to critically evaluate the company's leverage, liquidity, efficiency, profitability and market-based prospects using ratios.				
	The course also introduces students to the Capital Asset Pricing model and how is used for capital budgeting as well as adjustments for leverage using the weighted average cost of capital.				
	As a final goal the course focuses on the management of working capital.				
Learning Outcomes	1. Implement detailed cash flow statements allowing for taxation and net present value analysis for investment appraisal, projects with different useful lives and optimal timing of investment				
	2. Analyse and determine different valuation methods of shares including the dividend discount model, discounted cash flow and the price to earnings method				
	3. Analyse financial planning using financial ratios of firms and critically evaluate the company's leverage, liquidity, efficiency, profitability and market value of the firm and the company's competitive position				
	4. Evaluate risk based on the Capital Asset Pricing model and use the Capital Asset Pricing model for capital budgeting				
	5. List the different sources of finance, comprehend the relationship between capital structure and cost of equity and calculate weighted average cost of capital for evaluating investment decisions				

	6. Distinguish the issues involved in working capital management and implement simple-practical models for inventory and credit and cash management		
Prerequisites	AFIN101	Co-requisites	None
Course Content	Detailed Calculation of Cash Flows and Applications of Present Value: • Overview of alternative valuation methods (free cash flow, dividend discount, comparables) • Implement detailed calculation of free cash flows for project appraisal including depreciation, taxes and investments in working capital • Identify a project's opportunity costs and externalities and understand how to treat them in cash flow calculation for capital budgeting purposes • Analyse and determine the choice of assets with different economic lives using the equivalent annual cost approach • Decide on leasing versus buying an asset • Solve problems determining the optimal timing of investments • Valuation of firms (share price) using free cash flows, present value, the dividend discount model and shareholder value analysis. Financial Analysis, competition and Planning: • Industry analysis and competition (Porter's five forces) • Categorize the issues required for the evaluation of financial performance and planning and the respective ratios purporting to capture this information • Identity different financial information required for the calculation of financial ratios from financial statements and market-based information • Interpret the financial status of the firm using financial ratios • Summarize the different application where financial ratios will be valuably implemented (financial planning, credit evaluation, and firm risk assessment for investment or yield determination of debt). Valuation Models for Shares: • Explain the difference between net book value and market value of shares • The dividend discount model • Constant growth dividend discount model • Calculation of growth of dividend using return on equity and plowback		

- Implications of dividend discount model for dividend policy

- Disadvantages of the dividend discount model

- Valuation of shares using discount cash flow

- Industry and competitive analysis and forecasting

- Price earnings method using comparable industry price earnings ratios

Risk and return:

- Explain the portfolio creation and diversification benefits

- Define the calculation of risk based on the Capital Asset Pricing model

- Explain how risk is determined based on the Capital Asset Pricing model

- Apply CAPM for project evaluation using Net Present Value

- Fama-French, Pastor-Staumbaugh and macroeconomic models of required returns

- Other issues in risk assessment: country risk, private firm risks

Financing and the cost of capital:

- Identify and evaluate the different sources of long-term financing sources and the issuance of securities

- Preferred shares

- Analyse the characteristics of securities with options such as rights issues and convertible and callable debt

- Explain the tax advantage of debt

- Calculate the value of the levered firm using adjusted present value to include debt tax shield

- Implement the weighted average cost of capital (cost of capital for overall firm) in order to find the value of a levered firm (enterprise value)

- Distinguish and evaluate between public and rights issues

- Crowdfunding & peer-to-peer financing

Working capital management:

- Outline the issues involved in working capital management

- Define and solve the problem of Optimal Order Quantity based on the Economic Order Quantity model. Be able to perform sensitivity analysis in model parameters and interpret the results

- Identify and evaluate the different sources of short-term finance including a short-term loan, overdraft trade credit and lease finance.

	• Outline the factors used for assessing the credit quality of a customer • Outline the factors determining the terms of sale (duration, discount etc) • Evaluate the decision to prepay or delay credit payment • Explain the use of factoring for collecting receivables and advantages and disadvantages of this approach • Evaluate the repetitive credit with probability to default • Outline the trade-offs in holding large or small cash balances and optimal cash-flow management • Explain the different types of marketable securities and their use • Explain cash management models such as Baumol and Miller-Orr
Teaching Methodology	The course is delivered to the students by means of lecturers, conducted with the help of computer presentations and the use of the board. Lecture notes and other course material like spreadsheet examples are available to students through the web.
Bibliography	(a) Textbooks: Brealey, R., Myers, S., and F. Allen, Principles of Corporate Finance, McGraw Hill, 13th edition, 2019 CFA Program Curriculum 2020 Level I-III, Wiley (b) References: ACCA F9, Complete Text, Financial Management, Kaplan Publishing
Assessment	(a) Methods: Students will be assessed with course work that involves written and online assignments (quizzes), a midterm and a final test. The course involves both explaining concepts and numerical problems. (b) Criteria: Assessment criteria are available in each written assignment, midterm or in the final exam (c) Weights: • Assignments (& online quizzes) 10% • Midterm 30% • Final Exam 60%
Language	English language