

Course unit title:	Corporate Finance I		
Course unit code:	AFIN203		
Type of course unit:	Compulsory		
Level of course unit:	Bachelor (1 st Cycle)		
Year of study:	2		
Semester when the unit is delivered:	3 (Fall)		
Number of ECTS credits allocated :	6		
Name of lecturer(s):	Dr. Nicos Koussis		
Learning outcomes of the course unit:	<ol style="list-style-type: none"> 1. Explain the alternative theories of dividend policy and explain the dividend irrelevancy argument 2. Calculate mean, variances and correlations between assets and portfolio expected returns, risk and explain the concept of diversification 3. Explain the different forms of Market Efficiency and its implication for the determination of value of shares and the movement of stock returns 4. Calculate beta risk based on historical returns and explain risk based on CAPM model in connection to portfolio theory 5. Derive the tax benefits of debt and use weighted average cost of capital to make investment decisions with debt financing 6. Understand the characteristics of options and their use for hedging risk and derive payoff diagrams of options, value financial options using Black and Scholes and trees and apply options to corporate investment decisions under uncertainty. 		
Mode of delivery:	Face-to-face		
Prerequisites:	AFIN101, AFIN102	Co-requisites:	None
Recommended optional program components:	None		
Course contents:	<p>Dividend policy:</p> <ul style="list-style-type: none"> • Explain the different types of dividend payments • Critically analyse the practical considerations concerning dividend policy. Evaluate the dividend irrelevancy argument • List empirical research concerning dividend policy <p>Portfolio theory:</p> <ul style="list-style-type: none"> • Calculate means, variances and correlations of assets based on historical returns or scenarios • Calculate portfolio expected returns and risk (volatility) • Explain the concept of diversification, feasible investment set, minimum variance set and efficient set • Explain investor preferences in mean-variance space • Calculate portfolio expected returns by investing in risk-free and risky portfolios • Calculate efficient portfolios with the risk-free asset and explain the optimal capital allocation line with investments in risk-free and Market portfolio. <p>The Efficient Market Hypothesis:</p> <ul style="list-style-type: none"> • Explain the definition of the Efficient Market Hypothesis • Explain the different forms of Market Efficiency: Weak form, Semi-Strong form, Strong Form 		

	<ul style="list-style-type: none"> • Explain the implication of Market Efficiency for the determination of share prices and of stock returns • Other issues in investing: liquidity and marketability of shares • Other implications of Market Efficiency and market anomalies (empirical deviations from Market Efficiency, for example the size effect) <p>The Capital Asset Pricing Model:</p> <ul style="list-style-type: none"> • Interpret the Capital Asset Model and determination of risk based on the CAPM • Calculate betas based on historical returns of an asset and the market index • Calculate portfolio of assets betas and find the cost of equity capital based on risk • Use CAPM for capital budgeting problems. Explain the use of portfolio beta for firms with multiple assets • Alternative theories of risk determination: the Consumption CAPM and arbitrage pricing theory <p>Financing and the Cost of Capital:</p> <ul style="list-style-type: none"> • Explain the tax advantage of debt • Calculate the cost of equity and cost of debt using CAPM model properly taking into account risks • Implement the weighted average cost of capital approach to find the value of a levered firm using the Weighted Average Cost of Capital in combination with the CAPM model • Understand the impact of debt in the required returns of equity holders • Combine traditional Miller-Modigliani theory of the capital structure with CAPM- unlevered and levered betas • Perform sensitivity analysis and simulation in capital budgeting problems • Discuss market imperfections and theories of the determination of optimal capital structure including trade-off theory and pecking-order theories <p>Understanding Options:</p> <ul style="list-style-type: none"> • Explain the characteristics of options contracts and their use for hedging risk • Outline of hedging techniques for foreign exchange and interest risk (forward contracts, forward rate agreements) • Provide examples on the use of options for hedging currency risk • Create payoff diagrams for common options contracts and combinations of options contract • Explain put-call parity and be able to prove it • Value call and put option contracts using Black-Scholes and binomial trees • Perform sensitivity analysis and explain the implication of changes in model parameters to option values • Apply option theory to corporate investment decisions. Explain the option to delay investment, the option to abandon, and options to operate/not operate under uncertainty
<p>Recommended and/or required reading:</p>	<ul style="list-style-type: none"> • R. Brealey, S. Myers and F. Allen, Principles of Corporate Finance, 12th Edition, 2017, McGraw-Hill. • Lecture notes (provided by lecturer)

	<ul style="list-style-type: none"> • ACCA F9, Complete Text, Financial Management, Kaplan Publishing • Bodie Z., Kane A. and Alan Marcus, Investments, 6th Edition, McGraw-Hill (BCM) • Copeland, T., F. Weston , A. Shastri, Financial Theory and Corporate Policy, 4rd Edition, Addison-Wesley, 2004 • Besley S. and Brigham, E. Essentials of Managerial Finance, 12th edition, South Western College Publishing • Brealey, R., Myers, S. and Alan Marcus, Fundamentals of Corporate Finance, 4th Edition, McGraw Hill, 2004
Textbooks:	R. Brealey, S. Myers and F. Allen, Principles of Corporate Finance, 9th Edition, 2008, McGraw-Hill. (BMA)
References:	
Planned learning activities and teaching methods:	The taught part 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.
Assessment methods and criteria:	<ul style="list-style-type: none"> • Test 40% • Final Exam 60%
Language of instruction:	English
Work placement(s):	No