Introduction

Gestão Financeira II

Undergraduate Course

2011-2012

Details of the Course

- Material available in ISEG's website (aquila):
  - Course Syllabus;
  - Powerpoint Presentations;
  - Problem Sets to solve in class/home.
- Two 1-hour Lectures + One 2-hour Class;
- Bibliography: Berk and DeMarzo's "Corporate Finance", 2nd edition
  - With access to MyFinance Lab;
- Assessment:
  - 1 Mid-Term Test (20%): Saturday **April 14th**
  - 1 Group Work Assignment (25%);
  - Final Exam (55%).
  - Exam of Época Normal only for Continuous Evaluation System students.

Syllabus

- What is corporate finance?
- Investment Decision (Capital Budgeting):
  - Assuming a given cost of capital /discount rate.
- Financing Decision:
  - Debt (Loans, Bonds) – cost of debt;
  - Equity – cost of equity;
  - How do investors choose? Portfolio Theory
  - Choice of Capital Structure of Firms.
- Payout Policy:
  - Retain or Distribute?
  - Cash Dividends or Stock Repurchases?

Balance Sheet

Invested Capital:	Equity and Debt:
Net Working Capital Current assets – Current liabilities	**Long-Term Debt**
Fixed Assets Tangible Intangible	**Shareholders' Equity**

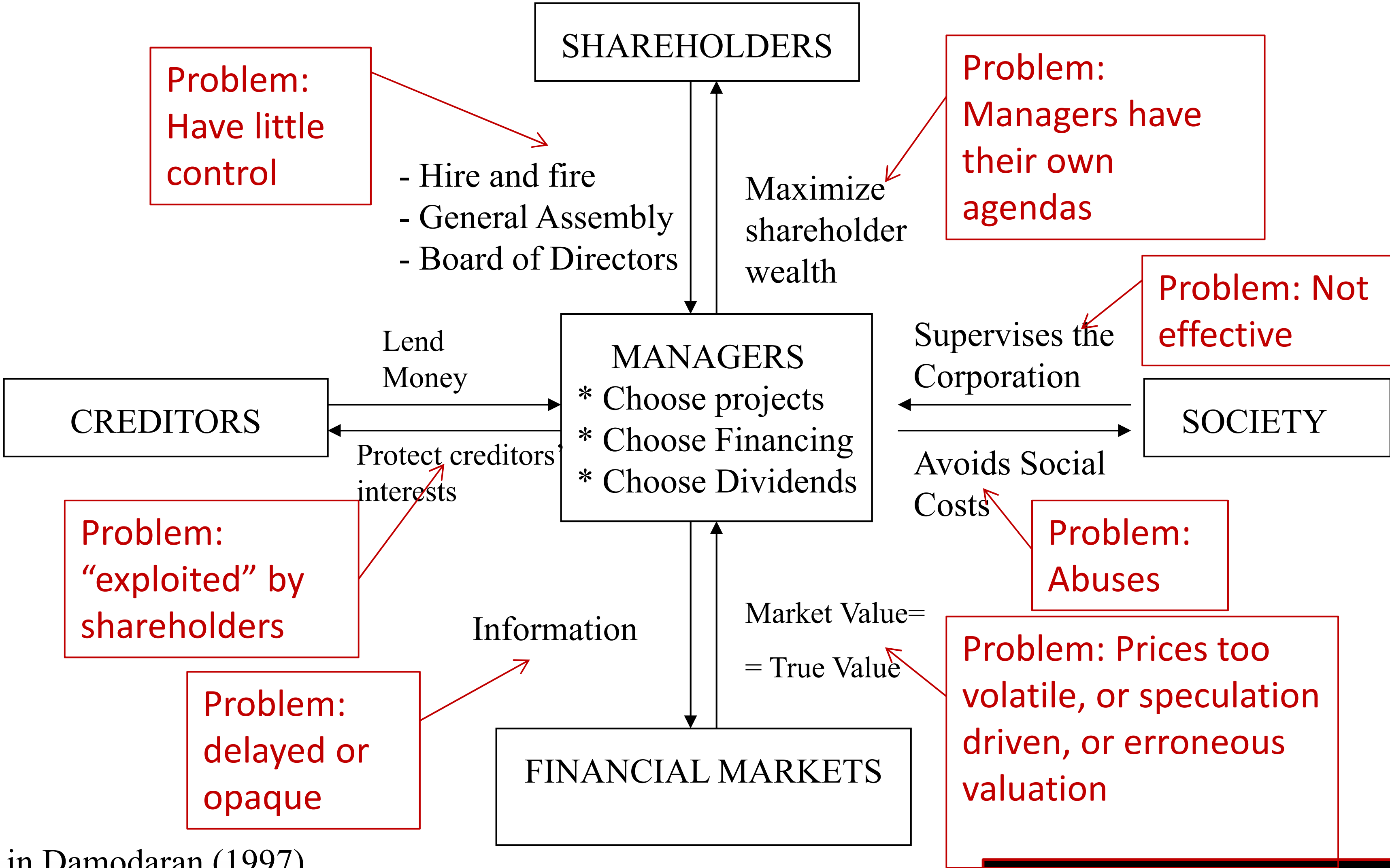
Capital Budgeting Decision:
which investments maximize value?

Capital Structure Decision:
which financing m
maximizes value?

The Four Types of Firms

- Sole Proprietorship
  - Business is owned and run by one person, with Unlimited personal liability;
- Partnership
  - Similar, but with more than one owner. Each and every partner is personally liable for all of the firm's debts. The partnership ends with the death or withdrawal of any single partner.
  - Limited Partnership has two types of owners: General Partners and Limited Partners. The latter have limited liability and cannot lose more than their initial investment. Cannot legally be involved in decision making.
- Limited Liability Company (LLC)
  - All owners have limited liability but they can also run the business.
- Corporation
  - A legal entity separate from its owners. The corporation is solely responsible for its own obligations. Its owners are not liable for any obligation the corporation enters into.

The Objective of the Firm: Classica[l] view



in Damodaran (1997)

AGENCY PROBLEMS

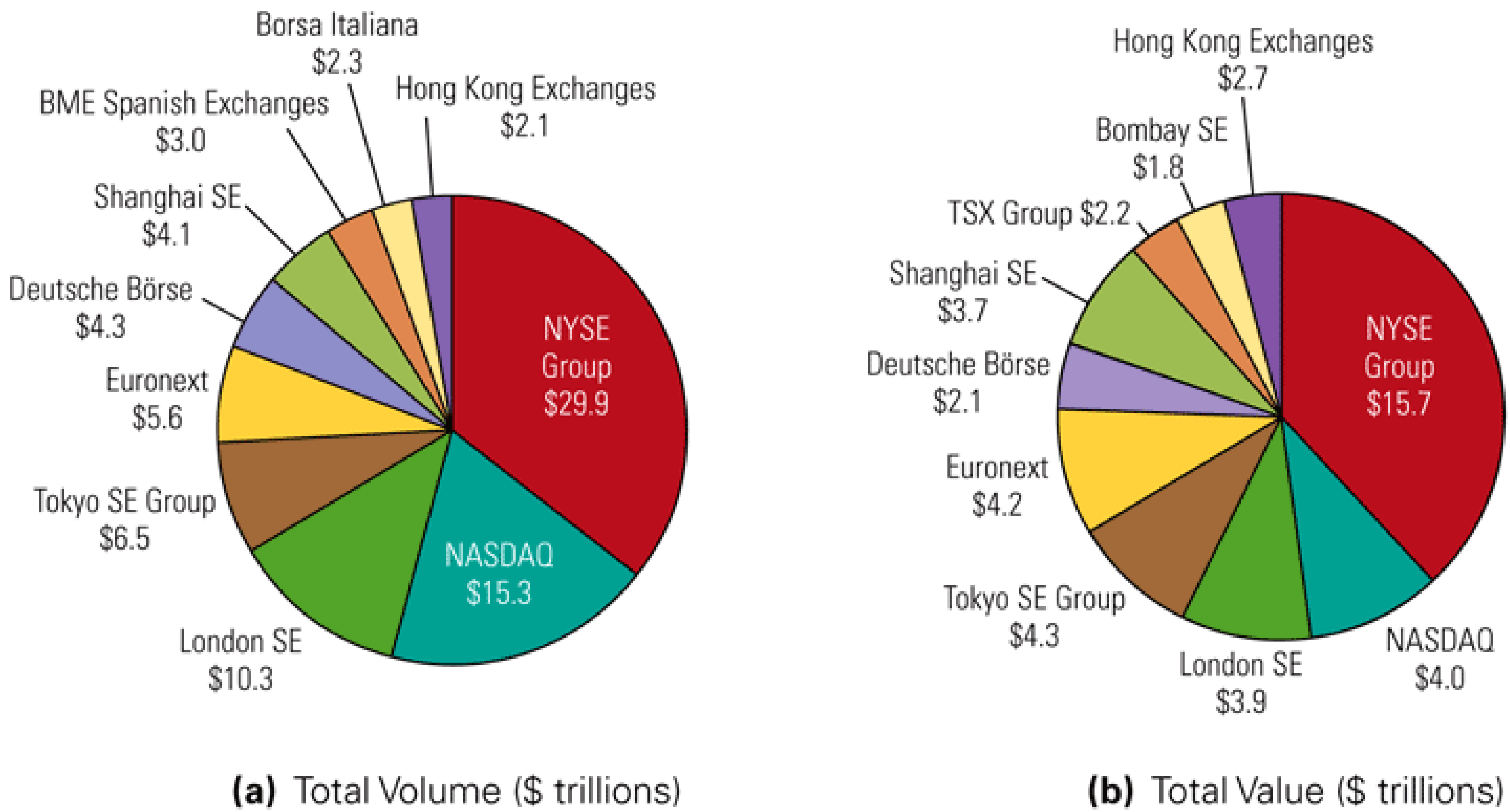
The role of the Stock Market

- Provides **Liquidity** to shareholders: The ability to easily sell an asset for close to the price you can currently buy it for;
- **Public** Company: Stock is traded by the public on a stock exchange.
    - **Private** Company: Stock may be traded privately.
- **Primary Markets**
    – When a corporation itself issues new shares of stock and sells them to investors, they do so on the primary market.
- **Secondary Markets**
    – After the initial transaction in the primary market, the shares continue to trade in a secondary market between investors.

Stock Markets

- Largest Stock Markets
  - New York Stock Exchange (NYSE)
    - Market Makers/Specialists
      - Each stock has only one market maker
  - NASDAQ
    - Does not meet in a physical location
    - May have many market makers for a single stock
  - Bid Price versus Ask Price
    - Bid-Ask Spread
      - Transaction cost

Worldwide Stock Markets Ranked by Two Common Measures



Source: www.world-exchanges.org

Banking System

- As an alternative to issuing securities , corporations can raise funds in the banking system through loans
  - More common in Continental Europe and among small firms
- Money Market (interbank – LIBOR, EURIBOR)
- Foreign Exchange Market (spot)