



LISBON  
SCHOOL OF  
ECONOMICS &  
MANAGEMENT  
UNIVERSIDADE DE LISBOA

## FINANCIAL MARKETS AND MANAGEMENT

### Syllabus

#### Masters in Management

2020-2021 (Fall Semester)

**FACULTY:** Clara Raposo - [clararaposo@iseg.ulisboa.pt](mailto:clararaposo@iseg.ulisboa.pt)

**“VIRTUAL” OFFICE HOURS:** Fridays, 16:00-18:00, MS TEAMS, Team FMM-MiM

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**COURSE OBJECTIVES:** With this course, students are familiarized with the main existing financial markets, as well as with the main financial decisions made by firms and other organizations, among which we highlight the investment decision, the financing decision, and the payout decision. Besides the “traditional” views on these matters, we also dedicate some attention to the current themes of ethics and sustainable finance, focusing on socially conscious investors and ESG - Environment, Social and Governance financing (including, for example, green bonds and good governance principles), and also on new non-conventional markets (like cryptocurrencies and fintech). Students should understand the main techniques and methods used to evaluate an investment, as well the financing choices involved, and the optimal capital structure for a given company. The payout decision is also discussed.

**COURSE DESCRIPTION:** The course starts with a brief summary review of the main financial markets in place (money markets, capital markets, currency markets) and trends (such as fintech and cryptocurrencies), to move on to an overall revision of the basic concepts in finance (such as time value of money, discounting and compounding). The course then focuses on capital budgeting and the traditional financial performance measures such as the NPV or the IRR, covering the concept of Free cash flow, as well as robustness checks, such as scenario analysis. Turning to financial markets, bond and stock valuation, and portfolio theory and the CAPM are reviewed. This is followed by a careful discussion of the basic financing choices of firms and the theory of capital structure, starting from the Modigliani-Miller framework, discussing the trade-off theory, and also dynamic concerns. The main valuation methods used in real life situations, such as WACC, APV or FTE, are also applied. An analogy is made with respect to the payout decision. Some preliminary notions of financial option pricing allow students to later develop in more depth the topics of corporate investment and financing (such as Hybrid financing choices, like warrants and convertible bonds, and risky debt à la Merton with strategic debt service). A final word is dedicated to the “new industry” of ESG Investments and Sustainable Finance.

## COURSE OUTLINE:

0. Preliminaries
  - 01 Financial Markets in the 21C
1. Capital Budgeting
  - 11 Free Cash Flow
  - 12 Criteria: Payback Period, NPV, IRR, Profitability Index
  - 13 Special Cases: Inflation, Different Lives
  - 14 Robustness: Sensitivity Analysis, Scenario Analysis, Break-even Analysis
2. Capital Structure
  - 21 Debt and its cost
  - 22 Equity and its cost
  - 23 Modigliani-Miller (1958)
  - 24 Corporate taxes
  - 25 Personal taxes
  - 26 Costs of Financial Distress
  - 27 Agency Costs and benefits of debt
  - 28 Trade-off theory
  - 29 Pecking order theory
3. Valuation
  - 31 WACC method
  - 32 APV method
  - 33 FTE method
  - 34 Special Financing policies
4. Financial Options – basic concepts and pricing
  - 41 Corporate examples: Warrants and Convertibles
  - 42 Risky Debt: Merton's model; Anderson and Sundaesan's strategic debt service
5. Sustainable Finance Trends
  - 51 ESG Investors and Investments

## BIBLIOGRAPHY:

Any widely accepted Corporate Finance textbook is accepted and covers reasonably well the course content. A sample would be:

Berk and DeMarzo, *Corporate Finance*, 5<sup>th</sup> ed., Pearson, 2020.

Brealey, Myers, and Allen, *Principles of Corporate Finance*, 13<sup>th</sup> ed., McGraw-Hill

Damodaran, *Corporate Finance*, 2<sup>nd</sup> ed., Wiley

Hillier, Ross, Westerfield, Jaffe & Jordan, *Corporate Finance*, european ed., McGraw-Hill

Grinblat and Titman, *Financial Markets and Corporate Strategy*, McGraw-Hill

## GRADING SYSTEM:

- In the **Continuous Evaluation System** the grading elements are:
  - **Problem Sets** (20% of final grade).
  - **Group Work Assignments** (20% of final grade), consisting of analysing, solving and presenting a case study. Students must organize themselves in groups of six students (max). Students must prepare a written report (hard copy), together with an Excel spreadsheet (when appropriate) and a powerpoint presentation.

- Final Exam (60% of final grade), with a minimum grade of 8.0/20.0.
- The Final Grade will be the maximum of: (i) the average of the 3 elements (problem sets, group work assignments and final exam) or (ii) the final exam grade.
- In the **Final Evaluation System**:
  - The only grading element is the final exam (potentially complemented with an oral exam, depending on the evolution of the pandemic situation.)
- Students with a final grade higher than 17 may be required to defend their grades in an oral exam.

**EXAM DATES:**

Época Normal (First Sit): January 13<sup>th</sup> 2021  
15:00

Época Recurso (Second Sit): February 3<sup>rd</sup> 2021  
09:00,

**CLASSES:** Mondays 09:30-12:30 (9 Nov 2020 – 14 Dec 2020)  
Room Anf 5 (Floor 1, Building New Quelhas ).