

**FIN 4020B : CORPORATE FINANCE – COURSE SYLLABUS**  
**DAY / TIME : FRIDAY 1:30 - 4:50 PM (ROOM ‘S’)**  
**LECTURER : ANDREW OMBATI ONGIRI**  
**CREDIT : 3 UNITS**

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### **COURSE DESCRIPTION**

The management of funds in corporations: an overview of capital budgeting; project cash flow analysis; capital budgeting under conditions of uncertainty; cost of capital decisions; capital structure decisions and dividend decisions.

***Pre-requisite : FIN 3010***

### **COURSE OBJECTIVES**

Business enterprises exist to make returns for its owners. This objective can only be achieved when the firm is able to efficiently pursue its primary objects. The efficient and effective utilization of organizational resources enables firms to maximize both profits and the owner’s wealth.

This course deals with the way a firm undertakes investment, financing and dividend decisions. The course focuses on minimization of risk, maximization of returns and maintenance of proper balance between debt and equity utilization in the modern business environment.

At the end of the course you should be able to:

- i. Apply the various capital budgeting techniques.
- ii. Develop an understanding of the various techniques and models for dealing with investment risk.
- iii. Estimate cash flows from a project.
- iv. Explain and apply weighted average cost of capital and the marginal cost of capital.
- v. Explain the importance of capital structure decisions to a business enterprise.
- vi. Understand the importance and effect of dividend policy decisions on the firm.

### **COURSE CONTENT**

#### **Week 1 & 2**

#### **Topic 1: Overview of Capital Budgeting Techniques**

- Nature and purpose of capital budgeting decisions.
- Types of investment decisions.
- Investment appraisal or capital Budgeting techniques.
- Conventional capital budgeting techniques.
- Discounted cash flow methods of investment appraisal.
- Illustrating capital budgeting techniques.

#### **Assignment No. 1**

### **Week 3 & 4**

#### **Topic 2: Project Cash Flow Analysis**

- Cash flow estimation.
- Relevant cash flows.
- Tax effect on cash flows.
- Effects of working capital.
- Analysis of cash flows.
- Replacement decisions.
- Projects with unequal lives.
- Abandonment decisions.

#### **Case Study 1**

### **Week 5 & 6**

#### **Topic 3: Capital Budgeting under Risk**

- Methods of handling risk in capital budgeting.
- Market Equilibrium models; Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Model (APM/T).

### **Week 7 : MID-SEMESTER EXAMINATION**

### **Week 8**

#### **Topic 4: Cost of Capital Decisions**

- Importance of cost of capital.
- Component costs of equity, debt and preferred shares.
- Computing the cost of newly issued stocks.
- Weighted and marginal cost of capital.
- Factors affecting the cost of capital.

### **Week 9**

#### **Risk Return Analysis and the need for Diversification**

- CAPM and the risk adjusted cost of capital.
- Techniques of measuring Beta / Risk.
- Capital budgeting and the cost of capital.
- Capital Rationing.

#### **Assignment No. 2**

### **Week 10 & 11**

#### **Topic 5 : Capital Structure Decisions**

- Capital structure of a firms.
- Business and financial risks.
- Capital structure theories.
- Capital structure variations.
- Book versus market weights in the capital structure.

#### **Assignment No. 3**

## **Week 12 & 13**

### **Topic 6 : Dividend Policy**

- Dividend and retained earnings.
- Factors determining the dividend pay out.
- Government policy on dividends.
- Stability of dividends.
- Forms of dividends.
- Dividend model or theories.
- Changing the dividend policies.
- Dividend Re-investment Plans.

### **Case Study 2**

## **Week 14 : FINAL EXAMINATION**

### **TEACHING METHODOLOGY**

A mixture of lectures, case studies and class discussions will be used. You will be required to read the relevant text(s) preferably before topics are discussed in class and definitely after discussions in class for a thorough understanding of the subject matter. You are also advised to read additional texts recommended.

### **COURSE TEXTS**

Brigham, E.F., Daves, P.R. (2005). *Intermediate Financial Management*. 2<sup>nd</sup> Ed. Dryden Press. New York.

Myers, B. (2005) *Principles of Corporate Finance*. 6<sup>th</sup> Ed. Tata McGraw-Hill. New Delhi.

Pandey, I. (2005). *Financial Management*. Vikas Publishing. New Delhi.

Varnhorne, J. C. (2005). *Financial Management Policy*. 12<sup>th</sup> Ed. Prentice Hall International.

### **Additional Reading**

Weston, J. F & Copeland T. (1996). *Managerial Finance*. 11<sup>th</sup> Ed. Dryden Press. Forth Worth.

Ross, S. A., Westerfield R.W; Jaffe, J (1999) *Corporate Finance*. 2<sup>nd</sup> Ed. Irwin Mc.Graw Hill. Boston.

Any other text on '*Financial Management*' or '*Corporate Finance*'.

### **COURSE EVALUATION**

You will be evaluated as follows:

Participation and Attendance	10%
Assignments	30%
Mid-Semester Examination	30%
Final Examinations	<u>30%</u>
<b>Total</b>	<b><u>100%</u></b>
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## GRADING SYSTEM

%		%	
90	-	100	A
87	-	89	A-
84	-	86	B+
80	-	83	B
77	-	79	B-
74	-	76	C+
70	-	73	C
67	-	69	C-
64	-	66	D+
62	-	63	D
60	-	61	D-
0	-	59	F