

FINE12117
FINANCE I

Instructors

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Objectives

The purpose of this course is to provide students with an overview of Finance from a managerial point of view. At the end of the course, you should be able to:

- Be knowledgeable about the universe of Finance: its language, its institutions, the problems it addresses and the solutions it proposes;
- Extract information from a company's financial statements and use them to make informed financial decisions;
- Perform basic valuation analysis and understand the interaction between firm value and financial leverage.

Organization

The course consists of a series of 10 lectures, practice questions corresponding to each lecture (starting from lecture 2), a mid-term exam (part of the fifth lecture) and a final exam.

The practice questions will not be graded. However, **students are expected to work through the practice questions**, since they contain material that is complementary to in-class discussion. Practice questions will be made available on the website of the course (on the Moodle platform) after the end of each lecture while their complete solutions will be provided after about two weeks. Occasionally, some exercises part of the practice questions will be discussed in class.

Course policy

- Students arriving late are not allowed to enter the classroom.
- Do not chat with your classmates on class.
- **10%** of final grade (2 points) is guaranteed if you complete the 6 sign-in checks. This 6 sign-in checks are randomly made during the 10 sessions.

Based on the sign-in sheet:

- One absence = no point deduction
- Two absences = 1 point deduction
- Three absences and beyond = 2 points deduction.

The mid-term exam and the final exam will be graded according to the rules described below.

Grading

- The mid-term exam counts for **40%** of the final grade. This will be a 75 minutes exam.
- The final exam counts for **50%** of the final grade. This will be a 2 hour and 30 minutes exam.
- Format of mid-term and final exams: Pen and paper exam, short-answer and long-answer questions (no multiple-choice questions). You can bring an A4 size cheat sheet. You can write/type in English on both sides of cheat sheet, any font, any colour.
- You are allowed to use your calculator in the mid-term and final exams. Any calculator with memory that can perform addition, subtraction, multiplication, division, and can compute exponentials and logarithms will suffice. If you are considering purchasing a new one, the following calculators are recommended:
 - Any Hewlett Packard 12C series (HP 12C)
 - Any Texas Instruments BA II Plus series (TI BA II Plus)
- In case of absence at the mid-term exam (duly justified, e.g. for medical reasons), the final exam counts for **100%** of the final grade. If unjustified, the absence will be counted as zero.

Readings

The main textbook of the course is

[RWJJ] S. A. Ross, R. W. Westerfield, J. Jaffe and B. D. Jordan, 2019, “Corporate Finance” (12th edition), McGraw-Hill.

Previous editions of this book can also be used and are available at the ESSEC library.

Other occasional articles, references, websites etc. of interest will be suggested throughout the course according to the topic of each session.

Course Outline

Session 1: An Overview of Finance

What Finance is about. Financial markets.

Readings: RWJJ: chapters 1, 15, 16.1, 16.2.

Session 2 & 3: The Additivity of Value

The time value of money. Basic financial mathematics. Present Value.

Reading: RWJJ: chapter 4

Session 4: Cash is King

From accounting statements to cash-flow. Sources and uses of funds. (Optional: Working capital management).

Reading: RWJJ: chapters 2 and 26.

Session 5:

First half: Mid-term review

Second half: Mid-term exam

Session 6: How to Make Good Investments

Capital Budgeting decisions. Net present value (NPV). Payback period rule. Internal rate of return (IRR).

Reading: RWJJ: chapters 5 and 6.

Session 7 & 8: Bond and Stock Valuation.

Bond valuation. Stock valuation.

Reading: RWJJ: chapters 8 and 9.

Session 9 & 10: How Much Should a Firm Borrow?

Basic concepts in capital structure. Issuing securities to the public. Debt capacity. Limits to the use of debt.

Readings: RWJJ: chapters 16.3, 16.4, 16.5 and 17