

**The London Institute
of Banking & Finance**

Corporate Finance



The London Institute of Banking & Finance is a registered charity, incorporated by Royal Charter.

© The London Institute of Banking & Finance

MODULE SPECIFICATION

1. Title	Corporate Finance	
2. Start date	2016	
3. Level of module	Level 5 FHEQ	
4. Number of credits	30 Credits	ECTS Value
		15
5. Status	A compulsory module within: <ul style="list-style-type: none"> BSc (Hons) in Finance, Investment and Risk 	
6. Recommended prior modules	<ul style="list-style-type: none"> Introduction to Quantitative Methods (Level 4) Financial Services: The Commercial Environment Debt and Equity Investment and Valuation Interpretation of Financial Statements 	
7. Programmes of study to which module contributes	<ul style="list-style-type: none"> BSc (Hons) in Finance, Investment and Risk 	
8. Campus / Partner	N / A	
9. Syllabus overview	<p>Corporate Finance aims to provide knowledge and understanding of the key focuses of corporate finance, particularly corporate investment, the financing of such investment and the servicing of investment / distribution of investment returns. Students will consider various analytical techniques in relation to specific corporate finance applications and corporate governance. The module provides understanding of the financial market environment in which companies operate. Focus is given to the ways that capital markets function, the major participants involved and their role in the financial system.</p> <p>Students consider and analyse the problems faced by corporations when operating within a stock market. The module further develops analytical skills via the application of valuation models to a range of finance sources and the selection strategies for corporate financing. Students will assess the multiple forces influencing corporate capital structure and payout policy.</p> <p>The syllabus is designed to provide students with a framework of the main principles underlying corporate finance. It begins by focusing on the evaluation of corporate investment opportunities and the links to shareholder objectives. The syllabus progresses by including various techniques and models to cope with a range of complexities faced by corporate decision-makers.</p> <p>Having considered investment appraisal, the syllabus then concentrates on the raising of finance for such investment. Key features of financial markets are presented and a specific focus is given to how corporations behave and interact within a capital market environment. It introduces portfolio theory, the capital asset pricing model and the weighted average cost of capital, and their use in capital budgeting. Focus is given to the analysis of empirical evidence and implications thereof for the development of corporate finance strategy.</p> <p>Students learn how to separate risk into various components and consider possible hedging strategies. Results from quantitative analyses are inter-related with empirical evidence to contribute to the formulation and evaluation of alternative financial strategies.</p> <p>Students are introduced to new valuation models and these models are applied to merger and acquisition appraisals. The module provides knowledge and understanding of the often conflicting forces that determine the corporate capital structure decision. The Efficient Market Hypothesis is used as a basis for the consideration of capital market behaviour and the relevance of behavioural finance theories.</p>	

10. Intended subject specific learning outcomes and, as appropriate, their relationship to programme learning outcomes

On completion of this module, students will be able to:

- a) explain the assumed objective of corporate finance and the role of the financial manager and the functions of Treasury Management and cash management;
- b) participate in informed debate relating to the functions of stock markets, the facilities provided, the corporate interaction and issues of efficiency, demonstrating an understanding of the major financial institutions and markets;
- c) analyse the concept of time value of money and its relevance within the context of long-term decision-making;
- d) apply a range of computational techniques to a variety of corporate investment appraisal problems and assess various investment appraisal techniques, taking note of any related limitations;
- e) estimate variance and covariance; identify efficient portfolios through portfolio theory; demonstrate a knowledge and understanding of efficient portfolios and the Sharpe ratio;
- f) analyse the nature and practicalities of a variety of corporate finance sources.
- g) understand the capital structure debate and the use of the weighted average cost of capital;
- h) demonstrate knowledge and understanding of different asset pricing models including the capital asset pricing model and their use in capital budgeting;
- i) analyse the Efficient Market Hypothesis (EMH) and consider findings from empirical studies relating to the EMH;
- j) understand and evaluate different forms of long-term and short-term funding;
- k) demonstrate an understanding of the interaction between investment and financing and the similarities and differences between the adjusted present value and net present value methods;
- l) assess the factors that influence corporate dividend and payout policy; and
- m) consider a range of company valuation models and their importance in understanding mergers and acquisitions.

These intended module learning outcomes contribute to the following programme learning outcomes:

- BSc (Hons) in Finance, Investment and Risk: A2, A3, A4 and A5.

11. Intended generic learning outcomes and, as appropriate, their relationship to programme learning outcomes

On completion of this module, students will be able to demonstrate achievement of the following generic learning outcomes:

1. Ability to apply cognitive skills of analysis, synthesis and evaluation to the management of organisations and their external environment.
2. Ability to apply both qualitative and quantitative skills in order to analyse problems, identify appropriate solutions and make decisions.
3. Ability to develop and defend arguments / concepts through multiple perspectives.
4. Ability to work with material across a range of subject areas and to recognise the links and interrelationships between them.
5. Ability to conduct research into relevant issues.
6. Ability to abstract meaning from information and communicate effectively in a manner appropriate to the context and audience using a range of media.
7. Ability to plan and study independently and utilise resources effectively.

These intended generic learning outcomes contribute to the following programme learning outcomes:

- BSc (Hons) in Finance, Investment and Risk: B–D.

12. Learning and teaching

A. Learning hours

For a module of study worth 30 credits, the total expected study hours are 300 (ie ten hours per credit). The contact hours will depend upon the student's mode of study.

B. Tuition support

Distance learning

Distance learning allows students to study independently within a clear framework, but at a pace that suits their personal circumstances and study needs. Over their course of study (24 weeks), students will be provided with comprehensive learning materials, study guides and will be assigned to a subject specialist academic tutor to support their studies. Distance learners will have regular contact with The London Institute of Banking & Finance lecturer and further practical support is available from The London Institute of Banking & Finance Student Services.

Flexible learning

Flexible learning allows distance learners to opt for three face-to-face workshops of approximately six hours each, evenly spread at appointed dates in each session (24 weeks).

Full-time students

Full-time students will study on a semester basis supported by their module lecturer. The weekly timetable will be advised at the start of the programme.

C. Learning materials and learning outcomes

The learning and teaching strategy is designed to ensure that the students achieve the learning outcomes by the end of the module. The learning and teaching methods include formal lecture and tutorial (full-time), online learning support from an appointed lecturer (distance / flexible learning), private study of text and other supporting materials, a formal assignment, informal exercises, (both individual and group-based), and pooling of experience and knowledge through class / forum and individual discussion. The assessment strategy is designed to achieve a balance between testing the student's skills of knowledge recall and understanding, and those of research and application.

D. Reading

Students will be provided with a core text or equivalent, as detailed below, but will also be expected to read and research the recommended reading on the course website. Lecturers may also recommend additional reading throughout the module.

Essential reading:

- Hillier, D., Ross, S., Westerfield, R., Jaffe, J., Jordan, B. (2016) *Corporate Finance*. McGraw-Hill Higher Education. 3rd edn. (Full-time)
- Arnold, G. (2012) *Corporate Financial Management*. Harlow: Pearson. 5th edn. (Part-time)

Journals

- Journal of Applied Corporate Finance
- Journal of Finance
- Global Finance Journal

Trade Press

- Institutional Investor
- International Financing Review

Websites

Financial Times www.ft.com

Each student will have access to the Virtual Learning Environment (VLE) and to *KnowledgeBank* learning resources (an electronic library service). A list of further readings relating to the syllabus and summative assignment can be found on the VLE.

It should be noted that due to the rapidly changing environment that encapsulates the financial services sector, the reading list above is indicative only. It is subject to review and update at the discretion of the module team. An up-to-date reading list is made available to students at the start of the module.

13. Assessment

Component	Duration / Length	Weighting
Component 1 Summative assignment	3,000 to 4,000 words including quotations and in-text citations	50%
Component 2 Examination	Two hours (plus 15 minutes' preparation time)	50%

Component 1: Summative assignment

This component will contribute 50% of the overall assessment and will be based upon the submission of one assignment (maximum 3,000 to 4,000 words including quotations and in-text citations) at the end of the course but prior to the examination. The focus of the assignment will be on exploring the relationships between issues and topics within the module syllabus. Feedback will be provided on this component.

The pass mark for this component is 40%.

Component 2: Examination

This component will contribute 50% of the overall assessment. A variety of question styles and approaches may be included in the examination. Questions might require responses that involve both discursive and quantitative elements. Students will typically be required to explore and compare specific aspects of an issue or to apply their technical abilities and understanding to, for example, solve a problem or provide a recommendation.

The question paper will be structured as follows:

- **Section A** consists of one compulsory question worth 20 marks.
- **Section B** consists of two 15-mark questions, one of which must be answered.
- **Section C** consists of two 15-mark questions, one of which must be answered.

The pass mark for each component is 40%.

Time allowed: 2 hours (plus 15 minutes' preparation time).

A scientific calculator may be used but it must not be programmable, nor have a wireless-communications capability, nor be capable of storing textual information. It must also not require a mains electricity supply. Calculators with any further functions are not allowed in the examination room.

At regular intervals during the course of study, students will be expected to submit formative assignments. These assignments will take the form of developmental learning activities towards the assessed assignment and unseen examination components and will be integrated within the study plan. They will provide students both with opportunities to reinforce their learning as they progress through the course of study and the opportunity to prepare for both the summative assignment and unseen examination.

Whilst these formative assignments will not contribute to the overall assessment, students are strongly advised to take the opportunity to complete them, as feedback will be provided from their lecturer on their progress through the course of study.

Students should be aware of the regulations governing the award of credit and the arrangements for compensation, condonement and the capping of marks. Students should also be aware of the regulations relating to the resitting of assessment components and / or the retaking of modules. This information is contained within The London Institute of Banking & Finance General and Academic Regulations for Students sections 7, 8 and 9.

Module Grading

A student's module performance grade is determined by their overall weighted average percentage score in accordance with the following:

Pass	40%	-	59%
Merit	60%	-	69%
Distinction	70%	-	100%

14. Syllabus

1. An Introduction to Corporate Finance

This section of the syllabus commences with an introduction to the key elements of corporate finance. It includes an analysis of the role of the financial manager, the legal forms of business organisations, the objectives of the firm, value maximisation, agency problems and corporate governance.

2. Investment Appraisal

This section of the syllabus introduces long-term nature investment appraisal and the importance of inter-temporal choice and the time value of money. It begins by considering present and future values and how to value perpetuities and annuities. Various investment appraisal techniques, including net present value, the payback method, the internal rate of return and the profitability index are considered and critically compared. Investment appraisal with limited resources and hard and soft budget constraints is also considered.

3. Introducing Risk (in the context of the decision-making model)

The distinction between risk and uncertainty is introduced. It introduces probabilities and expected value. It examines risk and return, the measurement and trade-off between risk and return and the concept of the risk premium in determining the discount rate. It examines idiosyncratic and unsystematic risk and the benefits and limits of diversification. It considers the measurement of expected return and systematic risk and gives a first introduction to beta.

4. Portfolio Theory

This section of the syllabus considers the expected return on a portfolio and the computation of covariance and correlation. It proceeds to show how to construct an efficient portfolio. The analysis is extended by introducing a risk-free asset and identifying the Sharpe ratio and tangent portfolio. The efficient portfolio is related to the cost of capital.

5. The Capital Asset Pricing Model (CAPM)

This section includes an investigation of the market portfolio, the capital market line (CML) and security market line (SML). It introduces the market alpha and market beta. It considers how to estimate the market beta from historical data and considers the empirical evidence for the CAPM and its relation with the efficient markets hypothesis. The use of the CAPM in capital budgeting decisions is considered.

6. Long-Term Sources of Finance and Capital Structure

This section of the syllabus investigates the importance of capital structure for company valuation. This includes an application of the Modigliani-Miller theorem (MM) on the irrelevance of capital structure and the weighted average cost of capital (WACC). The later MM theories are considered alongside introducing taxation effects; financial distress; agency costs; signalling concerns, clientele issues and agency theory.

7. Dividend Policy

This section of the syllabus considers the importance of corporate dividend policy for market valuation. This includes an investigation of the incentives and constraints on corporate policy makers, possible strategies and the dividend controversy.

8. Mergers and Acquisitions and Corporate Restructuring

This section of the syllabus considers mergers and acquisitions including the classification of M&A activity based on types of merger as well as common motivations behind M&A activity. It looks at company analysis for M&A purposes and evaluation techniques for an M&A bid. The impact on corporate restructuring, including divestitures and the main reasons for divestiture, is also considered.