



## CIEE Barcelona, Spain

|                                  |   |
|----------------------------------|---|
| <b>Course title:</b>             | Corporate Financial Decision Making                               |
| <b>Course code:</b>              | BUSI 3001 BASP  |
| <b>Programs offering course:</b> | Business and Culture, Economics and Culture, Language and Culture |
| <b>Language of instruction:</b>  | English   |
| <b>U.S. semester credits:</b>    | 3.00  |
| <b>Contact hours:</b>            | 45.00   |
| <b>Term:</b>                     | Fall 2023   |

### Course Description

No matter which direction your career takes you, financial management skills will be invaluable, even more than ever as roles converge and "inter-disciplinary" becomes the norm. This course will give an overview, and indeed we'll study how often being able to interpret a balance sheet can be as important and sometimes more important as the more intuitive income statement. We'll learn why having assets can be both an advantage and a problem, and why cash flow is deservedly given priority. We will see that profitability is a term with several interpretations, and that it must always be analyzed together with the concept of risk. We will also go over the sources of financing for companies who operate globally and learn how exchange rates raise the challenges a Chief Financial Officer must face. We will learn to analyze the exposure arising out of exchange rates and to manage such exposure by means of a money market hedge, derivatives and swaps. We learn to decide between different financing options denominated in different currencies and use hedging techniques to minimize risk.

### Learning Objectives

By completing this course, students will:

- Analyze income statements and balance sheets.
- Critique a company's position from a risk, profitability and leverage viewpoint.
- Evaluate a company's exposure to exchange rate risk.
- Design hedging strategies to manage the impact of currency oscillations on companies.

### Course Prerequisites

3 semesters of college-level micro- or macroeconomics, accounting, finance, management, or statistics.

### Methods of Instruction

This course will be taught mainly through PowerPoint presentations. Additionally, we'll have some guest speakers, a fieldtrip (pending to be confirmed), class debates and lectures.

### Assessment and Final Grade

|    |                     |      |
|----|---------------------|------|
| 1. | Midterm Exam        | 20%  |
| 2. | Final Exam          | 20%  |
| 3. | Final Project       | 25%  |
| 4. | Quizzes             | 15%  |
| 5. | Class Participation | 20%  |
|    | TOTAL               | 100% |

### Course Requirements

#### **Midterm Exam**

#### **Final Exam**

The full contents of the sessions (including the slides and the explanations and class discussions not shown on them) will be part of the midterm and final exams. The latter will be cumulative.

#### **Final Project**

In teams of 3 or 4, students must pick a company and briefly describe the main features of its line of business. Students must then find the company's financial statements for a recent year. (If any relevant figure is missing, they should come up with a reasonable estimate and justify it making reference to the other items of the balance sheet and income statement and to the company's line of business). Students must then conduct an economic as well as a financial analysis of the company. Finally, they must assess the firm's exchange rate exposure and propose one or two ways to hedge its position.

The final project will be presented in class. Students may divide the work among themselves, but all members of the group must come prepared to explain any item in their final project. The presentation will take place on the previous to last day of class (the session prior to the final exam).

The grading criteria will be: 1) clarity and depth of the written explanations, 2) extent to which students relate to the course (the more concepts of those explained in class they touch on, the higher the grade), 3) capacity to answer questions in the oral presentation.

## **Quizzes**

Two brief quizzes will take place throughout the semester.

## **Class Participation**

Class participation is an important part of the course.

## **Attendance**

To encourage engaged learning, regular class attendance is required throughout the program. This includes any required co-curricular class excursion or event, as well as internship, service-learning, or other required field placement.

An excused absence in a CIEE course will only be considered if approved by a CIEE Center Director/Academic Director (not the Instructor), and:

- it is a self-certified absence for illness (only once per course, requires formal request before or within 24 hours, cannot miss assessment worth more than 5% of final course grade)
- a doctor's note from a local medical professional is provided
- evidence of a family emergency is provided
- it is a pre-approved observance of religious holiday

Unexcused absences include personal travel and/or travel delays, as well as missing more than 25% of a single class period (including tardiness and early departure). Assessments missed due to unexcused absences will be marked as zero. Students with over 10% unexcused absences will be contacted by CIEE staff. Students with over 20% unexcused absences will be contacted by CIEE staff, receive a formal warning letter (shared with their home institution) and lose 10% of the final course point total (e.g., a final A grade of 93% will be lowered to a B grade of 83%).

For more detail, please consult your CIEE Academic Manual.

## **Academic Integrity**

Academic integrity is essential to a positive and inclusive teaching and learning environment. All students are expected to complete coursework responsibilities with fairness, respect, and honesty. Failure to do so by seeking unfair advantage over others or misrepresenting someone else's work as your own can result in grade penalties or disciplinary action. See the CIEE Student Academic Manual for further information on academic integrity.

***N.B. Course schedule and co-curriculars are subject to change. The final duration and distribution of content and assignments will be determined and presented to students at the onset of the course.***

## **Weekly Schedule**

### **Week 1**

Class: 1.1 Introduction to the course

Class: 1.2 Financial and foreign exchange markets

Money, credit, bond, stock and foreign exchange markets.

Reading: Madura, chapter 3

## **Week 2**

Class: 2.1 Introduction to corporate finance

Income statement and balance sheet review

Reading: Martínez Abascal, chapter 1 (pp. 1-11)

Class: 2.2 Economic vs. Financial viability

Links between Balance Sheet and Income Statement

## **Week 3**

Class: 3.1 Income statement analysis

Sales, cost of goods sold, gross margin and operational expenses

Class: 3.2 Analyzing economic and financial performance

Margin, rotation, leverage and profitability ratios

## **Week 4**

Class: 4.1 Operational risk I

Cashflow from operations and breakeven point

Quiz 1

Class: 4.2 Operational risk II

Change in sales, fixed assets and gross margin without incurring in losses

## **Week 5**

Class: 5.1 Financial Risk

Effects of debt and interest rates on Earnings

Class: 5.2 Balance Sheet Analysis I

Needed funds for operations (NFO)

Reading: Martínez Abascal, chapter 1 (pp. 11-18)

## **Week 6**

Class: 6.1 Balance Sheet Analysis II

Sources and uses of funds

Reading: Martínez Abascal, chapter 1 (pp. 19-31)

Class: 6.2 Midterm exam

## **Week 7**

Class: 7.1 Forecasting exchange rates

Technical, market and fundamental forecasting

Reading: Madura, chapter 9

Class: 7.2 Measuring exchange rate exposure

Spot rate, forward rate and currency correlations

Reading: Madura, chapter 10

### **Week 8**

Class: 8.1 Managing transaction exposure I

Money market hedges

Reading: Madura, chapter 11 (p. 353 and p. 360)

Class: 8.2 Currency derivatives I

Forwards and futures

Reading: Madura, chapter 5 (pp. 129-138)

### **Week 9**

Class: 9.1 Currency derivatives II

Currency options

Reading: Madura, chapter 5 (pp. 139-149)

Class: 9.2 Managing transaction exposure II

Hedging with derivatives

Reading: Madura, chapter 11

### **Week 10**

Class: 10.1 Managing economic exposure

Operating structure and restructuring

Reading: Madura, chapter 12

Class: 10.2 Managing Translation exposure

Hedging fixed assets and consolidation losses/gains

Reading: Madura, chapter 12 (pp. 401-403)

Quiz 2

### **Week 11**

Class: 11.1 Financing internationally in the long-term I

Currency swaps and parallel loans

Reading: Madura, chapter 18 (pp. 547-555)

Class: 11.2 Financing internationally in the long-term II

Debt denomination

Reading: Madura, chapter 18 (pp. 556-563)

Final project draft due

### **Week 12**

Class: 12.1 Financing internationally in the short-term

Effective financing rates and probability distributions

Reading: Madura, chapter 20

Class: 12.2 Presentation of final project

### **Week 13**

Class: 13.1 Final exam

### **Course Materials**

#### **Readings**

Madura, Jeff. International Corporate Finance, South Western – Cengage Learning, 11th ed., International Edition, 2011.

Martínez Abascal, Eduardo. Finance for Managers. McGraw-Hill, 2012.