CIEE Barcelona, Spain

Course title: Corporate Financial Decision Making
Course code: BUSI 3001 BASP
Programs offering course: Business and Culture, Economics and Culture, Language and Culture
Language of instruction: English
U.S. semester credits: 3.00
Contact hours: 45.00
Term: Spring 2021

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, derivates 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


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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**

Students are expected to attend all scheduled class sessions on time and be prepared for the day’s class activities. CIEE does not distinguish between justified or unjustified absences, whether due to sickness, personal emergency, inevitable transportation delay and/or other impediments. You are considered responsible of managing your own absences. Please keep in mind that exams, paper submission dates, presentations and any other course work deadlines cannot be changed.

No academic penalty will be applied if students miss up to 3 class sessions. If students miss up to 5 class sessions, students’ final course grade will drop 5 points out of 100 on the CIEE grade scale for each additional absence beyond 3 (for example a 95 will become a 90 if they reach the 4th absence, and an 85 if they reach the 5th absence). Students will automatically fail the course if they miss more than 20% of total class hours (i.e. if they exceed 5 absences).

For students who miss up to 20% of the total course hours due to extenuating circumstances, the Academic Director may allow for exceptions to the local attendance policy based on documentation such as proof of bereavement, religious observances, hospitalization etc.

Students arriving more than 10 minutes late to the class will be considered absent for a day.

_N.B. Course schedule is subject to change due to study tours, excursions, or local holidays. Final schedules will be included in the final syllabus provided to students on site._

**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
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
