

Final Exam Study Guide

This is a general guideline and should be viewed as such. Anything covered in class can be tested.

Module 1: Introduction, Financial Statements, and Analysis

1. What is Corporate Finance?
 - (a) Know the three questions
 - (b) What are agency costs and how do we alleviate them?
 - (c) Goal of financial manager (Shareholder vs stakeholder theory)
2. Financial Statements and Cash Flow
 - (a) Three Financial Statements
 - i. What are they.
 - ii. How to construct them.
 - iii. What the item/account means.
 - iv. How a single transaction impacts each statement.
3. Financial Statement Analysis
 - (a) Common-size. Why do we do it? Perform and analyze.
 - (b) Ratio Analysis
 - i. Calculate from financial statements
 - ii. Analyze ratios (Know groupings)
 - iii. Dupont Identity
 - iv. Benchmarking
 - v. Common issues with Ratios

Module 2: Time Value of Money

1. Introduction to Valuation
 - (a) Key components of TVM: FV, PV, Rate and NPER.
 - (b) Power of compounding.
2. Discounted Cash Flow Valuation
 - (a) Annuities and Perpetuities (Regular and Growing)
 - (b) Annuity due vs Ordinary Annuity
 - (c) APR vs EAR
 - (d) Compounding periods not equal to payment periods.

Module 3: Bond and Stock Valuation

1. Interest Rates and Bond Valuation
 - (a) How to value a bond?
 - (b) Interest rate risk
 - (c) Yields (Current, YTM, and capital gains)
 - (d) Real vs nominal
 - (e) Term structure of interest rates and treasury yield.

- 2. Stock Valuation
 - (a) Intrinsic vs relative
 - i. Intuition and how to perform

Module 4: Capital Budgeting Tools

- 1. Capital Budgeting Tools
 - (a) NPV, IRR, Payback
 - i. How to calculate, rationale, decision rule, and pros/cons.
 - ii. Issues with IRR (non-conventional cash flows and mutually exclusive projects)

Module 5: Making Capital Investment Decisions

- 1. Making Capital Investment Decisions
 - (a) Relevant cash flows and common pitfalls
 - (b) Pro-forma
 - (c) How to calculate free cash flows for a project.

Module 6: Risk, Return, and the Cost of Capital

- 1. Risk and Return
 - (a) Relationship between risk and return (risk premium)
 - (b) Capital market efficiency
 - (c) Portfolios
 - (d) Diversification and what that tells us about risk
 - (e) Security market line and CAPM.
- 2. Cost of Capital
 - (a) Importance of cost of capital
 - (b) Understand and be able to estimate:
 - i. Cost of Equity
 - ii. Cost of Debt
 - iii. Capital structure weights
 - iv. WACC
 - (c) Issues with WACC
 - i. When is WACC inappropriate?
 - ii. Solutions:
 - A. Pure play
 - B. Subjective