

Financial Markets and Corporate Financing Decisions

FIN 614

Credit hrs. 2

Lecture hrs. 32

Semester II

Course Description

This course enables students to understand various mechanism and instruments of financing business along with their limitations and challenges. For this purpose, it provides an overview of financial system and the financial markets in which the financial manager raises funds. Then the course deals with how equity and long-term debt capital is raised from the market along with the theoretical insight on the optimal mix of debt and equity capital. Further, it deals with alternative financing mechanism – leasing and the instruments - warrants and convertibles. Finally, it provides a brief overview of how firms can raise funds from international financial markets.

Learning Outcomes

On completion of the course, students are expected to:

- Understand how financial markets operates within the financial system
- Interact with the different types of financial markets
- Explain how interest rates are determined in the market
- Raise equity and debt capital from the market
- Examine the impact of using different proportion of debt and equity on the value of the firm
- Evaluate buy-versus-leasing decision
- Use warrants and convertibles as sweetener while issuing securities
- Understand the basics of raising funds from international financial markets.

Course Details

Unit 1: Overview of Financial System

4 hrs.

The economy and the financial system; Functions performed by the financial system and the financial markets; International financial system; The dynamics of financial system.

Unit 2: Financial Markets, Financial Intermediaries and Interest Rates

6 hrs.

Financial Markets: Functions of financial markets, structure of financial markets, internationalization of financial markets. Financial intermediaries: Functions of financial intermediaries, types of financial intermediaries. Interest rates: theories of interest rates, and term structure of interest rates.

- Unit 3: Raising Capital 6 hrs.
 Features of equity capital; Early-stage financing and venture capital; The public issue; Alternative issue methods; The role of investment banker; The announcement of new equity and the value of the firm; The cost of new issues; Rights; Dilution. Features of corporate long-term debt; Types of bonds; Bank loan; Pattern of financing; Capital issues in Nepal.
- Unit 4: Capital Structure 5 hrs.
 The capital structure issue; Financial leverage and firm value; MM propositions; The effects of taxes; Effects of financial distress; Signaling; The pecking-order theory; Formulating capital structure policy.
- Unit 5: Leasing 5 hrs.
 Types of leases; Accounting and leasing; Taxes and leases; The cash flow and leasing; NPV analysis of the lease-versus-buy decision; Debt displacement and lease valuation; Reasons for leasing; Leasing practices in Nepal.
- Unit 6: Warrants and Convertibles 2 hrs.
 Warrants; Convertibles; The value of convertible bonds; Reasons for issuing warrants and convertibles.
- Unit 7: Raising Funds from International Markets 4 hrs.
 Foreign exchange markets and exchange rates; Purchasing power parity; Interest rate parity, unbiased forward rates, and international Fisher effect, the cost of capital for international firms; Exchange rate risk; Political risk

Suggested Readings

- Ross, S. A., Westerfield, R. W., Jaffe, J., Jordan, B. D., & Kakani, R. K., *Corporate Finance*, Chennai: McGraw Hill.
- Mishkin, F. S. & Eakins, Stanely, G., *Financial Markets and Institutions*, Delhi: Pearson India.
- Brigham, E. F. & Ehrhardt, M. C., *Financial Management: Theory and Practice*, New Delhi: Cengage Learning India.
- Van Horne, J. C. & Dhamija, S. *Financial Management and Policy*. New Delhi: Pearson Education.
- Saunders, A, & Cornett, M. M., *Financial Markets and Institutions*, New Delhi: Tata McGraw-Hill.
- Rose, P. S. *Money and Capital Markets*. Irwin: McGraw-Hill.

Note: Latest edition of the suggested readings will be used and the faculty may recommend additional reading materials.