

BA2230 Course Outline

Chapter 9 & 10 - Review Time Value of Money and Valuation and Rates of return

- Valuation of Bonds
- Valuation of Preferred Stock
- Valuation of Common Stock

Chapter 11 - Cost of Capital

- Cost of Debt
- Cost of Preferred Stock
- Cost of Common Equity
 - Valuation approach (Dividend Model)
 - Cost of Retained Earnings
 - Cost of new Common Stock
 - CAPM for Required Return on Common Stock
- Optimal Capital Structure – Weighting Costs
- Capital Acquisition and Investment Decision Making
- The Marginal Cost of Capital

Chapter 12 – Capital Budgeting Decisions

- Resultant Cash Flows
- Accounting Flows vs Cash Flows
- Methods of Evaluating Investment Proposals
 - Average Accounting Return
 - Establishing Cash Flows
 - Payback Period
 - Net Present Value
 - Internal Rate of Return
 - Profitability Index
- Selection Strategy
 - Mutually Exclusive Projects
 - Discounting Considerations
 - Modified IRR
 - Multiple Internal Rates
- Capital Rationing
- Capital Cost Allowance - CCA Tax Shield
- Investment Tax Credit
- Combining Cash Flow Analysis and Selection Strategy

Chapter 13 – Risk and Capital Budgeting

- Definition of Risk in Capital Budgeting
- The Concept of Risk Aversion
- Actual Measurements of Risk
- Risk and the Capital Budgeting Process
 - Risk Adjusted Discount Rate
 - Increasing Risk Over Time
 - Qualitative Measures
- Certainty Equivalents
- Computer Simulation Models
- Sensitivity Analysis
- Decision Trees
- The Portfolio Effect
- Beta, Covariance, Coefficient of Correlation

Chapter 14 – Capital Markets

- The Structure
- Organization of Security Markets
- Market Efficiency
 - Efficient Market Hypothesis
- Securities Regulation
- Public vs Private Financing
- Leveraged Buyouts
- Mergers and Acquisitions

Chapter 16 – Long term Debt and leasing

- The Role of Debt
- Bond Prices, Yields and Ratings
- The Refunding Decision
- Other Forms of Bond Financing
- Corporate Debt for the Medium Term
- Advantages and Disadvantages of Debt
- Leasing as a Form of Debt
 - Capital Lease vs Operating Lease
 - Income Statement Effect
 - Advantages of Leasing
- Lease vs Purchase Decision

Chapter 17 – Common and Preferred Stock Financing

- Common Shareholder's Claim to Income
 - Voting Rights
 - Cumulative Voting
- The Right to Purchase New Shares
 - The Use of Rights in Financing
 - Effect of Rights on Shareholder's Position
 - Desirable Features of Rights Offerings
- Preferred Stock
- Income Trusts
- Comparing Common Stock, Preferred Stock and Debt

Chapter 18 – Dividend Policy and Retained Earnings

- Dividend Theories
- Dividends in Practice
- Other Factors Affecting Dividend Policy
- Stock Dividend
 - Accounting For
 - Value to the Investor
 - Use of
- Stock Splits
- Repurchase of Stock as an Alternative to Dividends
- Dividend Reinvestment Plans

Chapter 19 – Derivative Securities

- Forwards
- Futures
- Options
- Options vs Futures
- Convertible Securities
- Warrants
 - Valuation
 - Use of
 - Accounting Considerations