Bus 342
Fundamentals of Corporate Finance

Introduction

Main Topics

Brief Contents of the book:

• Part 3: Valuation of Future Cash Flows
• Part 4: Capital Budgeting
• Part 5: Risk and Return
• Part 6: Cost of Capital and Financial Policy

Part 3: Valuation of Future Cash Flows

• Ch. 5: The Time Value of Money
• Ch. 6: Discounted Cash Flow Valuation
• Ch. 7: Interest Rates and Bond Valuation
• Ch. 8: Stock Valuation
Valuation of Future Cash Flows

A world with only one bank --- a constant ideal bank:
• Same interest rate for deposits and loans
• No service charges or transaction fees
• Same interest rate regardless of the length of time of deposits or loans
Valuation of Future Cash Flows

What about a bond that pays some interest payments every half a year, then pays back the principal after 10 years. How much is it worth now?

What about a stock that pays some fixed amount of dividends every quarter. How much is it worth now?

- Ch. 5: The Time Value of Money
- Ch. 6: Discounted Cash Flow Valuation
- Ch. 7: Interest Rates and Bond Valuation
- Ch. 8: Stock Valuation

Part 4: Capital Budgeting

- Chapter 9: Net Present Value and Other Investment Criteria
Capital Budgeting

• Many ways to make that decision.
• One very important way:

Part 6: Cost of Capital and Financial Policy

• Ch. 15: Cost of Capital
• Ch. 17: Financial Leverage and Capital Structure Policy

Summary

• Valuation of Future Cash Flows
• How to invest money --- Capital Budgeting
• How to raise money --- Cost of Capital and Financial Policy
Additional Topics

- Financial Derivatives
  - Forward
  - Futures
  - Swaps
  - Options (part of Ch. 14)
- International Corporate Finance (Ch. 22)