**Course Syllabus**

**Spring 2025**

**Sarah Khalaf**

**FIN 425 - Capital Budgeting & Long-Term Financing Decisions**

**Lecture Time and Location**

**Section 04** : M/W at 3:30 PM to 4:45 PM. Location in D3 1001

**Contact Information**

**Location** : Department of Finance & Financial Institutions – Area B – 4th Floor

**Email** : sarah.khalaf@ku.edu.kw

**Office** : 4th Floor B - 1035

**Office Hours** : M/W 12:30 – 1:30 PM or by appointment

**Teaching Assistant**

**Name** : Dalia Marafi

**Location** :Department of Finance & Financial Institutions – 4th Floor

**Course Description**

This course focuses on capital budgeting and long-term financing decisions. All major topics concerned with strategic investment decisions are covered in the course, including investment value measurements, cash flow analyses, risk assessments, and capital structure/financing analyses. The problems will provide the opportunity to apply concepts and methods.

**Course Learning Objectives (CLOs)**

Upon successful completion of the course, students will be able to:

1. Explain the different types of valuation models and the assumptions behind them.
2. Use time value of money concepts to value the price of common equity and bonds.
3. Use capital budgeting methods (i.e. NPV, IRR, MIRR, PBP, etc.) to solve financial problems.
4. Estimate the future free cash flows for the project/company and use capital budgeting methods to arrive with the appropriate financial decision.
5. Use the relevant data to calculate the weighted average cost of capital for the company/project.
6. Estimate the expected net present value and standard deviation for the project and make the appropriate financial decision.

**CLO Mapping to CBA Skill Based Competency Goals[[1]](#footnote-1)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| CLO | Competency Goal | | | | |
| Analytical | Communication | Information Technology | Business Ethics |
| 1 | I |  |  |  |
| 2 | R |  | I |  |
| 3 | R | I | I |  |
| 4 | I |  | I |  |
| 5 | R |  |  |  |
| 6 | I |  |  |  |

**Type of Emphases:**

* **(I)ntroduce:** Students will be introduced to the skill and their grasp of it assessed in the course.
* **(A)pply:** The course will not cover the skill. Students should have a high-level grasp of the skill and are required to apply it in the course.
* **(R)einforce:** Students should have an introductory-level grasp of the skill and the course will improve their mastery to a higher level.

**Required Material**

**Textbook** : Berk, J., and DeMarzo, P. (2017). Corporate finance (4th ed.). Boston: Prentice Hall. (referenced) [Purchase Online Kindle Edition via Amazon or any other supplier]

**E-Learning System**: Moodle and Microsoft Teams

**Course Requirements and Policies**

**In-Class Tests:**

*Quizzes*

There will be **five** in-class quizzes that are 25 minutes each. You may use a cheat sheet for all quizzes. Only four will count towards 20% of your final grade (each quiz is 4%). The quizzes will be held at the start of class. Your lowest quiz grade will be dropped. Use the in class examples, along with the practice problems for each chapter as a way to prepare for quizzes. Missing a quiz will result in a zero. There will be no make-up quizzes. If you have an excused absence on the day of a quiz, it will be the quiz that is dropped.

*Midterm*

There will be **two** in-class examinations that are 75 minutes. The midterms will count towards 30% of your final grade. Use the in-class examples, assignments, along with the practice problems for each chapter as a way to prepare for the examinations. Midterm instructions will be discussed prior to each exam. Failure to adhere to the instructions, may result in loss of points.

**Class Preparation – Readings and Practice Problems:** Each lecture will have a chapter reading that is encouraged before the lecture itself. In this way, you will see the material twice and it will help deepen your grasp of the topics. Additionally, I will post practice problems for each chapter, along with their solutions in each set of Lecture Slides on Moodle. You are encouraged to solve these problems before the TA goes over them in the tutorial.

**Attendance and Participation:**

Every student in this course must abide by the Kuwait University Policy on Attendance (published in the Student Guide, Chapter 3, Section 13). A copy of the student guide can be accessed online on: <http://www.kuniv.edu/cs/groups/ku/documents/ku_content/kuw055940.pdf>

This course has a significant seminar component and class participation is critical to the learning experience. Participation will be assessed in each class period. Your class participation and attendance will both contribute to your score of in-class performance.

You may miss 2 classes without impacting your attendance and participation grade. Every class missed after that will negatively impact your grade. I do not distinguish between excused and unexcused absences. If you miss 5 or more classes, you will receive a zero for your attendance and participation grade. I will take attendance 10 minutes after class starts. If you arrive late to class, you will be marked absent.

**Cheating and Plagiarism:** Every student in this course must abide by the Kuwait University Policy on Cheating and Plagiarism (published in the Student Guide, Chapter 3, Section 2). A copy of the student guide can be accessed online on:

<http://www.kuniv.edu/cs/groups/ku/documents/ku_content/kuw055940.pdf>

Please carefully note all sources and assistance when you turn in your work. Under no circumstances should you take credit for work that is not yours. You should neither receive nor give any unauthorized assistance on any deliverable. If you have any questions about what constitutes “unauthorized assistance” please email me before the deliverable is submitted.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Grading:** The scores in this course will be the weighted average of the following items:   |  |  | | --- | --- | | **Weight** | **Description** | | 10% | Attendance and Participation | | 20% | Quizzes (x4) | | 30% | Midterm (x2) | | 40% | Final Exam | | 100% | TOTAL | | **Grade Distribution:**   |  |  | | --- | --- | | **Grade** | **Range** | | A | ≥ 95 | | A- | ≥ 90 and < 95 | | B+ | ≥ 87 and < 90 | | B | ≥ 83 and < 87 | | B- | ≥ 80 and < 83 | | C+ | ≥ 77 and < 80 | | C | ≥ 73 and < 77 | | C- | ≥ 70 and < 73 | | D+ | ≥ 65 and < 70 | | D | ≥ 60 and < 65 | | F | < 60 | |

**Course Outline:**

|  |  |
| --- | --- |
| **Title** | **Topics** |
| Time Value of Money  **Chapters 3 and 4** | Discounting/Compounding • Single Cash Flow Problems • Multiple Cash Flow Problems • Complex Cash Flow Problems • Annuities • Perpetuities |
| Valuations  **Chapters 3, 6, 9** | Arbitrage Valuation • Value and Price • Value of Bonds • Value of Stock •  Value of a Company |
| Fundamentals of Capital Budgeting  **Chapter 8** | Relevant Cash Flows • Estimating Cash Flows from a Project• Sunk Costs • Opportunity Cost •Project Externalities •Net Working Capital • |
| Investment Decision Rules  **Chapters 7 and 22** | NPV • IRR • Payback Rule • Mutually Exclusive Projects • Project Selection with Resource Constraints • Profitability Index • Sensitivity Analysis • Scenario Analysis • Equivalent Annual Benefit • Using NPV with Unequal Lives |
| Inflation and Capital Investment Analysis  **Chapter 5** | Inflation Defined • Current and Constant Dollar Prices • Real and Nominal Interest Rates • Inflation and Interest rate • Inflation and Cash Flow • Recognizing Inflation in Capital Budgeting • Inflation and Cash Flow Projection |
| Risk and Return  **Chapter 10** | Calculate Historical Returns • Link between Risk and Return • Calculate Risk Using Probability • Calculate Risk Using Historical Returns • Covariance • Correlation • Standard Deviation |
| Portfolio Theory  **Chapter 10 and 11** | Systematic Risk • Portfolio Return• Portfolio Volatility • Does Diversification Pay? • Risk Perspective |
| CAPM  **Chapter 10** | Asset Pricing Model (CAPM) • Beta |
| Cost of Capital  **Chapter 12** | Application of the CAPM to Capital Budgeting • Risk-Adjusted Required Return for a Project or Division of a Company • Using Comparable • •Cost of Capital Concept • Cost of Capital Components • Weights for the Weighted Average Cost |
| Capital Structure  **Chapter 14 and 15** | Equity Versus Debt Financing • The Interest Tax Deduction • Valuing The Interest Tax Shield • The Costs of Bankruptcy and Financial Distress • Optimal Capital Structure: The Trade-Off Theory • |

**Course Schedule (tentative and subject to changes)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Day** | **Month** | **Lecture** | **Slides** | **Quiz** | **Practice Problems** |
| 3 | Feb | Syllabus and Introduction | 1 |  | 1 |
| 5 | Feb | Time Value of Money | 1 |  | 1 |
| 10 | Feb | Time Value of Money | 1 |  | 1 |
| 12 | Feb | Time Value of Money | 1 |  | 1 |
| 17 | Feb | Valuations | 2 | Quiz 1 | 2 |
| 19 | Feb | Valuations | 2 |  | 2 |
| 24 | Feb | Valuations | 2 |  | 2 |
| 26 | Feb |  |  |  |  |
| 3 | Mar | Valuations | 2 |  | 2 |
| 5 | Mar | Fundamentals of Capital Budgeting | 3 |  | 3 |
| 10 | Mar | **MIDTERM** | | | |
| 12 | Mar | Fundamentals of Capital Budgeting | 3 |  | 3 |
| 17 | Mar | Investment Decision Rules | 4 |  | 4 |
| 19 | Mar | Investment Decision Rules | 4 | Quiz 2 | 4 |
| 24 | Mar | Investment Decision Rules | 4 |  | 4 |
| 26 | Mar | Market-Based Valuation | 9 |  | 6 |
| 31 | Mar |  |  |  |  |
| 2 | Apr | Investment Detective |  | Quiz 3 |  |
| 7 | Apr | Investment Detective |  |  |  |
| 9 | Apr | Inflation and Capital Investment Analysis | 5 |  | 5 |
| 14 | Apr | **MIDTERM** | | | |
| 16 | Apr | Risk and Return | 6 |  | 6 |
| 21 | Apr | Risk and Return | 6 |  | 6 |
| 23 | Apr | CAPM and the Cost of Capital | 6 |  | 6 |
| 28 | Apr | CAPM and the Cost of Capital | 6 | Quiz 4 | 6 |
| 30 | Apr | CAPM and the Cost of Capital | 6 |  | 6 |
| 5 | May | Capital Structure | 7 |  | 7 |
| 7 | May | Capital Structure | 7 | Quiz 5 | 7 |
| 12 | May | Capital Structure | 7 |  | 7 |
| 14 | May | *Final Exam Review* | | | |
| 22 | May | **FINAL EXAM from 11:00 AM to 1:00 PM** | | | |

**Appendix**

# CBA Competency Goals

1. **Analytical Competency:** A CBA graduate will be able to use analytical skills to solve business problems and make a well-supported business decision.

**Student Learning Objectives:**

* 1. Use appropriate analytical techniques to solve a given business problem.
  2. Critically evaluate multiple solutions to a business problem.
  3. Make well-supported business decisions.

1. **Communication Competency:** A CBA graduate will be able to communicate effectively in a wide variety of business settings.

**Student Learning Objectives:**

* 1. Deliver clear, concise, and audience-centered presentations.
  2. Write clear, concise, and audience-centered business documents.

1. **Information Technology Competency:** A CBA graduate will be able to utilize Information Technology for the completion of business tasks.

**Student Learning Objectives:**

* 1. Use data-processing tools to analyze or solve business problems.

1. **Ethical Competency:** A CBA graduate will be able to recognize ethical issues present in business environment, analyze the tradeoffs between different ethical perspectives, and make a well-supported ethical decision.

**Student Learning Objectives:**

* 1. Identify the ethical dimensions of a business decision.
  2. Recognize and analyze the tradeoffs created by application of competing ethical perspectives.
  3. Formulate and defend a well-supported recommendation for the resolution of an ethical issue.

1. **General Business Knowledge:** A CBA graduate will be able to demonstrate a basic understanding of the main business disciplines’ concepts and theories.

**Student Learning Objectives:**

* 1. Acquire a fundamental understanding of knowledge from the main business disciplines (e.g. finance, accounting, marketing, and management information systems, among others).

1. CBA Competency Goals can be found at the end of this document [↑](#footnote-ref-1)