



Spring Term

Basic Information:

Title: Capital Budgeting & Investment Decisions	Code: FIN 441
Program: BBIT	Credit Hours: Three (03)
Sessions: 30 Classes + Mid Term + Final Term	Pre-Requisite: FIN 340

Course Description:

Capital budgeting and financing decisions are primarily concerned with the major financial decisions faced by firms. These decisions can be broadly categorized as the investment policy, the financing policy, the dividend/repurchase policy, and the restructuring policy. This course will examine the main theories and empirical evidence surrounding these decisions and to use this knowledge to help solve typical 'real' finance problems.

Learning Outcomes:

After the completion of this course, it is expected that students who will involve themselves in the knowledge base working of the course will be capable to

1. Differentiate the cash flows that are relevant to investment projects.
2. Assess the impact of cost of capital on a firm's value
3. Demonstrate how the proper implementation of the capital budgeting process adds value to a firm
4. Estimate the relevant cash flow and risk of an investment project.
5. Compute a firm's weighted average cost of capital.
6. Determine the relative worth of investment projects under various assumptions and scenarios.

Teaching Learning Methodology:

The formal teaching component of this course consists of active student participation in and contribution to all forms of teaching and learning i.e. lectures, discussions, research assignments and projects. Lectures will be twice a week of 90 min each.

Group Configurations:

One of the objectives of this course is to encourage and facilitate teamwork. Class will have to make a group of four for projects and research assignments. It is recommended that student will form their own groups. As a general guideline, your group should have members with diverse skill sets including people who are proficient or have aptitude for different subject areas.

Weekly Term Plan

Wk	Lecture Topic
01	<i>Overview of Long-Term Investing and Financial Decisions</i>
02	<i>Measuring Investment Value</i>
03	<i>Free Cash Flow, Net Present Value, and Economic Value Added</i>
04	<i>Alternative Methods of Evaluating Capital Investments</i>
05	<i>Estimating Incremental Project Cash Flows</i>
06	<i>Ranking Mutually Exclusive Investments</i>
07	<i>Capital Rationing</i>
08	<i>Inflation and Capital Investment Analysis</i>
09	<i>Mid Term Examination</i>
10	<i>Taxes and Foreign Investments</i>
11	<i>Cost of Capital</i>
12	<i>Lease Analysis</i>
13	<i>Lease Analysis</i>
14	<i>Risk Simulation Concepts and Methods</i>
15	<i>Post Audit of Capital Investments</i>
16	<i>Final Term Examination</i>



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Topics in Details

No	Title	Bk	Ch
01	<i>Overview of Long-Term Investing and Financial Decisions: The Objective of Capital Budgeting, Capital-Budgeting Principles and Criteria</i>	A	1
02	<i>The Capital-Budgeting Process, Classifying Capital-Budgeting Projects, Investment Categories, Project Interactions</i>	A	1
03	<i>Capital-Budgeting Principles and Techniques, Net Present Value, Net Present Value Decision Rule, Contingent Projects, Strengths and Weakness</i>	A	2
04	<i>Alternative Investment Evaluation Criteria, Non discounted Cash Flow Criteria, Discounted Cash Flow Criteria, Surveys of Capital-Budgeting Techniques Used in Practice</i>	A	2
05	<i>Estimating Project Cash Flows, Incremental versus Total Cash Flow, The Replacement Problem, Estimating the Initial Investment, Estimating Operating Cash Flows. Estimating the Terminal Value, Calculating the Project Net Present Value</i>	A	3
06	<i>The New Product Introduction Decision, Estimating Terminal Values for New Product Introductions, Biases in Project Cash Flow Estimates, Over optimism, Lack of Consistency, Natural Bias, Post investment Audit</i>	A	3
07	<i>Real Options and Project Analysis, Option Valuation and Investment Decisions, Evaluating R&D Investments Using an Option Valuation Approach</i>	A	4
08	<i>Strategic Investments and Growth Options, Investment Decisions and Real Options</i>	A	4
09	<i>Mid Term Examination</i>		
10	<i>Risk Analysis in Capital Budgeting, Measuring Project Riskiness. Project Risk, Firm Risk, Systematic Risk, Sensitivity Analysis, Break-Even Analysis, Simulation Analysis, Problems with Simulation Analysis, Survey of Risk Assessment Techniques Used in Practice</i>	A	5
11	<i>Adjusting for Project Risk, Adjusting the Payback Period, Adjusting the Discount Rate, Adjusting Cash Flow, Using Certainty Equivalent, Survey of Risk Adjustment Techniques Used in Practice, Decision Trees</i>	A	5
12	<i>Estimating the Project Cost of Capital, Risk and the Cost of Capital for a Project, The Capital Asset Pricing Model, Financial Structure and Appropriate Discount Rates, The Cost of Capital for the Firm, The Cost of Equity Capital, The Cost of Debt Capital, The Cost of Preferred Stock, Calculating the Weighted Average Cost of Capital</i>	A	6
13	<i>The Cost of Capital for a Division, Assessing the Weighted Average Cost of Capital, Adjusted Present Value, Levered Equity Method, Comparing the WACC, APV, and LE Methods</i>	A	6
14	<i>Corporate Strategy and the Capital-Budgeting Decision, Competitive Markets and Excess Returns, Barriers to Entry and Positive Net Present Value Projects, Economies of Scale and Scope, Cost Advantages, Product Differentiation, Access to Distribution Channels, Government Policy</i>	A	7
15	<i>Building Competitive Advantage, Designing an Investment Strategy, Size and Competitive Advantage, The Dynamic Nature of Competitive Advantage, Corporate Strategy and Foreign Investment, Overseas Expansion and Survival, Designing a Global Expansion Strategy</i>	A	7
16	<i>Final Term Examination</i>		

Text & Recommended Readings

- Capital Budgeting & Long-Term Financing Decisions, 4th Edition; Neil Seitz and Mitch Ellison; South-Western Cengage Learning
- Capital Budgeting Valuation: Financial Analysis for Today's Investment Projects; H. Kent Baker and Philip English, Editor; J.W. Wiley & Sons, Inc., 2011

Assignment Specification

- Microsoft Access & Microsoft Visio
- Microsoft Word for Documentation

Headings	Arial 11pt Bold
Normal Text	Times New Roman 10pt
Header Footer	Times New Roman 8pt
Paragraph	Single Line Spacing
	First Line Indent 1.0 cm
Page Margins	2 cm from each side



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Grading Policy:

Final Grade for this course will be the cumulated result of the following term work with relevant participation according to the quoted percentage.

Sessional		25%	Mid Term		35%	Final Term		40%
Assignments	10 %		Mid Term Exam	25%		Final Exam	30%	
Quizzes	10%		Major Report/Work	10%		Case Study/ Project/ Term Paper	10%	
Presentations	05%							

Remember subdivision of Mid Term and Final Term Examination should be done only in extreme cases of very essential and major Grading Instruments.

Dishonest Practices & Plagiarism

Any student found responsible for dishonest practice/cheating (e.g. copying the work of others, use of unauthorized material in Grading Instruments) in relation to any piece of Grading Instrument will face penalties like deduction of marks, grade 'F' in the course, or in extreme cases, suspension and rustication from IBIT.

For details consult Plagiarism Policy of PU at <http://pu.edu.pk/dpcc/downloads/Plagiarism-Policy.pdf>

Grading System:

Letter Grade	Grade Point	Num Equivalence
A	4.00	85 – 100 %
A-	3.70	80 – 84 %
B+	3.30	75 – 79%
B	3.00	70 – 74 %
B-	2.70	65 – 69 %
C+	2.30	61 – 64 %
C	2.00	58 – 60 %
C-	1.70	55 – 57 %
D	1.00	50 – 54 %
F	0.00	Below 50 %
I	Incomplete	*
W	Withdraw	*

Norms to Course:

- ✓ *Submission Date and Time for the term instruments is always **Un-Extendable***
- ✓ *5 Absentees in class will result in forced withdrawal. (PU Policy)*
- ✓ *Re-sit in Mid and Final Term will cause you a loss of 2 and 3 grade marks respectively. (PU Policy)*
- ✓ *This is your responsibility to keep track of your position in class evaluation units.*
- ✓ *After the submission date, NO excuse will be entertained.*
- ✓ *Keep a copy of all submitted Grading Instruments.*
- ✓ *Assignment is acceptable only in its Entirety.*
- ✓ *No make up for any assignment and quiz.*
- ✓ *Copied & Shared work will score Zero.*
- ✓ *Assignments are Individual.*

Good Luck
 For the Spring Term