CATÓLICA LISBON
SCHOOL OF BUSINESS & ECONOMICS

UNIVERSIDADE CATÓLICA PORTUGUESA

SHORT-TERM FINANCIAL MANAGEMENT
5 December 2013

Academic Year: 2013/2014 *Trimester | Semester: 4th Trimester*

Instructor(s): Gary W. Emery

Course Description:

This course is concerned with short-term financial policies and the management of short-term assets and liabilities. We will begin by describing the links between a company's cash flows, its cash cycle and its short-term financing requirements. Next, we will examine the economic and financial principles that apply to individual working capital accounts. Our discussion of inventory will concentrate on the economic explanations for storing raw materials rather than buying them directly from the market as they are needed. When discussing supplier credit, we will explore the reasons companies permit their customers to delay payments and develop some methods for evaluating alternative payment policies. Our final three class periods will be concerned with using short-term assets and liabilities to maintain financial flexibility. Dimensions of financial flexibility we will examine include choosing the maturity structure of debt, the level of cash and temporary investments and hedging interest rate and other treasury risks.

Course Content:

Date	Topics	Mandatory reading	Suggested reading
28 April	Tools for Short-Term Financial Management.		None
	• Cash flow, operating and cash cycles.		
	• Approximate NPV & EVA.		
	• Working capital & growth.	Churchill	
	• Financing requirements.	Emery (B)	
2 May	Inventory.		None
	• Benefits & costs of inventory.		
	• What companies do.	Emery (C)	
	• EOQ and NPV modelling of inventory costs.		
5 May	Supplier credit.		None
	• Benefits & costs of supplier credit.		
	• What companies do.	Pike	
	• Cash flow modelling of payment policies.		
	• Credit granting & monitoring.		
	• What companies do.		
8 May	Financial flexibility: short-term financing.		Mian
	• Financing receivables.	Elul	
	• Maturity structure of debt.	Berlin	
	• What companies do.		
	Hermann Fitness Company report due.		
12 May	Financial flexibility: cash & temporary investments.		None
	• Benefits & costs of cash.		
	• What companies do.	Powell; Ferreira	
	• Measuring liquidity.	Emery (A)	
15 May	Financial flexibility: treasury risk management.		None
	• Managing interest & foreign exchange rate risk.	Headley	
	Public company working capital analysis due.		

Course Objectives:

The objectives of this course are for students to (1) understand the theories that explain why companies have short-term assets and liabilities; (2) examine and weigh the evidence for and against these theories; and (3) become proficient at using the tools of short-term financial management.

Grading:

Assessment will be based on periodic exercises (10%), a mini-case report (10%), analysis of a public company's working capital policies (20%) and a final exam (60%). The mini-case and project report are team assignments; each team should comprise 3 or 4 students. The presence or absence of class participation will be used for tie-breaking (to determine whether an average mark of 15.5 should be recorded as 15 or 16, for example).

Bibliography:

Berlin, Mitchell. "Debt Maturity: What do Economists Say? What do CFOs Say?" *Business Review*, First quarter 2006, pp. 3-10.

Churchill, Neil and John Mullins, "How Fast Can Your Company Afford to Grow?" *Harvard Business Review* (May 2001), pp. 135-143.

Elul, Ronel. "The Economics of Asset Securitization." *Business Review*, Third quarter 2005, pp. 16-25.

Emery (A), Gary. "Cash Flow Measures of Credit Risk." *Credit and Financial Management Review*, First quarter 1999, pp. 51-62.

Emery (B), Gary. "Notes on Short-Term Financial Planning." Part 2 of Chapter 19 from *Corporate Finance: Theory & Practice*. Addison-Wesley: Reading, Massachusetts, 1998.

Emery (C), Gary and Manuela Marques. "The Effect of Transaction Costs, Payment Terms and Power on the Level of Raw Materials Inventories." *Journal of Operations Management*, (March 2011), pp. 236-249.

Ferreira, Miguel and Antonio Vilela. "Why Do Firms Hold Cash? Evidence from EMU Countries," *European Financial Management*, (June 2004), pp. 295-319.

Headley, Jonathan and Peter Tufano. "Interest Rate Derivatives." *Harvard Business School publication* 9-294-095.

Mian, Shehzad and Clifford Smith Jr. "Extending Credit and Financing Receivables," *Journal of Applied Corporate Finance*, Spring 1994, pp. 75-84.

Pike, Richard, Nam Sang Chen, Karen Cravens, and Dawne Lamminmaki, "Trade Credit Terms: Asymmetric Information and Price Discrimination Evidence from Three Continents." *Journal of Business Finance & Accounting*, June/July 2005, pp. 1197-1236.

Powell, Gary and Kent Baker, "Management Views on Corporate Cash Holdings," *Journal of Applied Finance* (Number 2 2010), pp. 155-168.

Biography:

Gary W. Emery is the Oklahoma Bankers' Chair in Finance Emeritus at the Michael F. Price College of Business of the University of Oklahoma. Professor Emery's research area is corporate finance with an emphasis on short-term investment and financing decisions. He has presented and published his research on these topics in several conferences and journals and is the author of a graduate finance textbook entitled *Corporate Finance: Principles and Practice*. Professor Emery has taught graduate courses at Católica Lisbon since 2000.

Contact(s) and Office hours:

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Office hours: I will establish office hours at the first class meeting to accommodate the students' schedules.