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New Case Studies on Investment and Financing Decisions

Translated and Abridged version
of the original book

*Nuevos Casos Prácticos de Inversión
y Financiación*



Desclee De Brouwer

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**Translated and Abridged version
of the original book
'Nuevos Casos Prácticos de Inversión y Financiación'**

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To our nieces Jone and Carolina

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AUTHORS' NOTE ON THE TRANSLATED AND ABRIDGED EDITION OF THE ORIGINAL BOOK

The book presented here is a translated and condensed version of the book 'Nuevos Casos prácticos de Inversión y Financiación' written in 2005 and reissued in an improved version in 2014. Changes in the curriculum and the incorporation of new Undergraduate programs taught entirely in English made it necessary to decide whether to use materials originally written in that language or adapt those developed in the University of Deusto's Finance Department to the new context. The specific approach to Finance we have long pursued, which have yielded very good results so far, with very positive market recognition for graduates from our classrooms, both in the past and more recently justify, in our opinion, opting for the latter alternative.

We preferred to retain the original Introduction, which we believe remains fundamentally valid and better contextualizes the logic of what the reader will find within its pages; however, this new, translated and condensed version also required some additional comments.

There are various reasons that, in our opinion, justified 'lightening' the original Spanish version to present a more concise English one, while always striving to maintain the rigor of the original, as well as the level of depth in the fundamental topics. Thus, of the 64 Case Studies presented without corresponding solutions in the Spanish version, we have retained 32; we have also reduced the number of fully solved Case Studies, maintaining the 22 solved 'Exercises' from the original. Finally, we have also decided to maintain the chapter on Work Routines, which summarizes the fundamental theoretical aspects most directly applicable to the resolution of the Case Studies and Exercises presented.

The Exercises and Case Studies have been carefully selected to ensure that both the scope (breadth of the topics studied) and the level of depth available to the interested reader remain consistent with the original version. The original statements have not been modified (maintaining the figures that appear in the Spanish version), although we have updated some dates with the sole intention of bringing the assumptions as close as possible to the reader from a mere psychological perspective. We hope the reader enjoys this material.

The Authors
Bilbao, June 2025

SHORT NOTE FROM THE TRANSLATORS

The translation of the original material was carried out with the help of applications commonly used for this type of task. Regarding the subsequent work of revising and adapting the version provided by the algorithm, we believe it is important to briefly highlight some elements.

Readers with an advanced level of English will perceive that the original approaches ‘were conceived and constructed in Spanish’; in other words, if the cases had been originally conceived by a native English speaker, many phrases and structures would have been different. We have decided to maintain the logic implicit in the original, as we understand that language always serves communication and, therefore, must always be placed in the appropriate context. Thus, and along these lines, we have made some decisions that we understand to be questionable, such as the use of periods to separate thousands in the figures presented, among others. We have prioritized the fact that, today, the majority of users of the book are ‘native Spanish speakers trying to learn Finance in English’, and we think the decisions adopted better contribute to the ultimate goal pursued.

Introduction

This book contains a wide collection of Practical Cases related to the usual problems faced by the Financial manager of any company. Specifically, 73 Case Studies and 22 short Exercises are presented. The difference between a ‘Case Study’ and an ‘Exercise’ usually lies in the fact that the latter has a single answer, while the former usually presents different possible solutions, depending on the interpretation of the starting information, as well as the approaches we decide to use when trying to solve it.

The book replaces two other ones that we have been using profusely in the different courses on Business Finance (both undergraduate and graduate) taught by Professors of the Department of Finance of the Universidad Comercial de Deusto in recent years: ‘Casos prácticos de Inversión y Financiación’, by Fernando Gómez-Bezares, Juan Jordano and Javier Santibáñez; and ‘Inversión y Financiación: Casos resueltos’, by the latter author, both published in this same collection of the Desclee de Brouwer Publishing House.

The entry into operation of our new Currency, the Euro, in January 2002 is the first reason that justifies the present work. Thus, the euro implies a change in the unit of measurement in which transactions are carried out, which seemed to require the definition of problems in the new currency, in order to help the student of Financial problems to become familiar with it. On the other hand, there were many who, faced with this new situation, understood that to continue teaching Finance in pesetas was a historical anachronism condemned to absolute failure from the very 0.00 hours of January 1, 2002, and that any course that wished to present itself as modern had little less than to scorn as obsolete any approach made in pesetas. We have always defended that the new currency does not mean, from the point of view of the way of dealing with problems, but a simple change of scale, so that the practical cases defined in pesetas could continue to be valid for a long time. The fact is that the fundamental problems faced by the Financial director of a company are quite similar in the United States of America (where they will normally be defined in dollars), in Japan (with the yen as the main currency) or in Spain (in pesetas until quite recently or in euros in the new millennium).

In any case, and given that it seems that the main currency that we will handle in Europe in the future is the euro, we decided to prepare this collection, without discarding, naturally, all the previous material, fruit of the work and experience of the people who have passed through the Finance Department of this Faculty, and that we think it is important to continue taking advantage of. In this sense, only 51 of the 95 Exercises and Case Studies presented can be considered ‘new’, while the remaining 44 have been ‘recovered’ from the works cited above, adapting them normally to the new situation presented. However, the reader will still find 5 practical cases defined

in pesetas, as they are Case Studies that we consider particularly interesting for what they contribute, and it does not make much sense in our opinion to take them out of their original context. We have also included three Case Studies in dollars, which can be understood as a small wink to readers from other countries in which we also carry out our teaching activity.

The process we had to undertake also gave us the opportunity to try to take advantage of the experience accumulated in recent years in the use of the books mentioned at the beginning of this Introduction, revising some methodological aspects that in our opinion could be improved, and trying to maintain those that we consider adequate. Thus, we have included in this new collection some short ‘Exercises’, which contemplate the resolution of strictly specific topics, and which we believe can help in the learning process of people who are taking their first steps in the world of Finance. We have also structured the book in a peculiar way, as we will explain later, in an attempt to make it more useful in terms of the sole objective we set ourselves with it: to facilitate the learning process of a discipline that has the advantage of not being too complicated, but which is essential in Business management. As a novelty, we have also included a final chapter, entitled ‘Work Routines’, in which the fundamental elements of the methodology that we usually use in the resolution of financial problems are presented in a very summarized manner.

On the other hand, we continue to maintain some aspects of previous works that we consider interesting. Thus, a good part of the Statements raised (specifically 64 Case Studies) are presented without corresponding solutions: with this we try to encourage the reader to look for his own solutions, since we think that the only way to learn to ‘do’ Finance is by facing the problems, resulting impoverishing the simple process of seeing how others do it. In any case, in the remaining 31 statements (22 short Exercises and 9 Case Studies) we offer the complete solutions that we propose to the problems posed (which, in many cases, are not the only ones possible), with the intention that the interested reader can compare his own with them.

Another important aspect that we continue to maintain in this book refers to the various simplifications that are made in fields specifically related to Finance. Thus, the reader will note that in many cases simplifications of a Tax nature are made (treatment of Non-recurring earnings, definition of the Corporate Income Tax rate, non-consideration of Value Added Tax, time periods considered for tax depreciations, etc.) or related to the Social Security system. In reality, no specific Accounting, Tax or Legal System is strictly followed, although the basis is the Spanish at the beginning of the 21st century. Thus, in the cases with more accounting content, the aim is to maintain the spirit of the General Accounting Plan in force at this time, but without being obsessed with respecting the purely formal aspects; we should bear in mind that these cases are intended to be useful for a certain period of time during which, without a doubt, legal, accounting and tax aspects will change; on the other hand, this book will also be used in courses that we give in Latin America, or to students from other countries, where differences with the Spanish model appear; finally, it is often good to make simplifications, since trying to reproduce reality in all its complexity would distract from the fundamental financial concepts.

Some financial or accounting practices reflected in the cases are debatable, even erroneous; they should be discussed among those who try to solve the case, or with the teacher. Likewise, sometimes there may be missing or excess data: the idea is for the student to confront the case, question the information and provide solutions. All this will be enriched by working in a group.

The reader should be aware that all these cases are inspired by real situations, and many are simplifications of real events experienced by the authors; this often leads to theoretical simplifications of an economic-financial nature, such as how to deal with risk. You should be aware that in the real world it is often necessary to simplify.

The cases presented here are not normally designed for the application of models such as CAPM, APT, OPM, etc., since these possibilities appear in other books by the same authors published in this same Collection: 'Dirección financiera. Teoría y aplicaciones', by Fernando Gómez-Bezares, and 'Ejercicios de Teoría y Política Financiera', by Javier Santibáñez and Fernando Gómez-Bezares. Neither do we touch on topics related to the functioning of the markets (Banking, Stock exchange, etc.) or their instruments (Credits, Stocks, Options, Futures, Bonds, etc.), as all of this is covered in other subjects within the programs in which we participate.

At the beginning of the 21st century, an important trend of change in Accounting can be observed. For example, there is a clear trend in favour of 'Fair value' as opposed to 'Acquisition price' (combined with the Principle of Prudence). This will bring many accounting systems closer to Market price, facilitating the use of their figures by financial analysts. Finance has typically advocated the use of Market values (e.g. when weighting the cost of liability resources), so in the future accounting figures may be more useful. In fact, financial analysts use Accounting information, usually after a reprocessing process; the closer this information is to Market values, the more easily it can be used in Financial studies. In this sense, foreseeable changes in Accounting will tend to bring it closer to our form of analysis.

As far as the structure of the book is concerned, we understand that it may be somewhat 'strange', but it is by no means accidental. It is the result of a process of reflection, after many years of experience in the use of previous books. In this sense, we have tried to make the book usable at different levels, in undergraduate and graduate courses and subjects. Thus, we have divided it into three large 'blocks':

- The first section presents Case Studies without solutions. It is further divided into three sections:
 - * In-class Case Studies. They are those that we could consider as 'essential', and that we understand must be done in class for discussion with students; they sufficiently cover the different problems of Business Finance (Forecasting and Financial analysis; Investment under conditions of Certainty and Risk; and Analysis of the Cost of funds and Financing projects).

- * Practical cases complementary to those carried out in class. Of a more 'repetitive' nature with respect to the previous ones. They can be used for the interested student to work on their own and reinforce the concepts learned.
- * Other Case Studies (to work in groups, etc.). With a somewhat higher level of complexity than those included in the previous group, closer to business reality and also more varied and open to different possible interpretations. They can be used for resolution and discussion by groups, etc.
- The second 'block' presents Exercises and Case Studies with their corresponding solutions:
 - * Solved Short Exercises (specific topics). They are not strictly speaking 'Case Studies', but contemplate strictly specific problems (such as the calculation of the Working Capital investments required by a project or the Discount rate to be applied in the analysis of an investment). We believe that they can help the student to become familiar with the proposed methodology, giving him/her greater agility in its later use in real cases.
 - * Solved Case Studies. Of greater complexity and closer to reality than the Exercises of the previous section. A sufficiently complete number of Case Studies is presented, which tries to cover all the usual problems of Corporate Finance at different levels of difficulty.
- Finally, the third and last block presents what we have called 'Work Routines', which we think may be useful as a reference chapter, as a summary of the most important contents and the most frequently used methodological aspects; although we are also aware of the risk that its inclusion may entail, since we consider that in no case should it be understood as a 'substitute' for the theoretical text of which this book is intended to be a natural complement: 'Elementos de Finanzas Corporativas', by Fernando Gómez-Bezares, published in this same collection.

One last comment. The reader can see that within each chapter the cases are divided into four main sections: Forecasting and Financial Statements analysis; Investment under conditions of certainty; Investment under conditions of risk; and Cost of funds and Financing decisions. This last section is the least profuse, for two main reasons: because these problems deal in many cases with Investment analysis (especially under conditions of risk); and because since the work of Modigliani and Miller (which began to appear at the end of the 1950s), Financing decisions have lost

relative importance to the detriment of Investment decisions in terms of achieving the Company's Financial goal of the Firm.

It only remains for us to thank our colleagues in teaching tasks (although currently more dedicated to 'real' Financial practice) Luis Abril and Juan Jordano, authors of some of the cases included here (specifically the Case Studies 'Almacén la Buena Estrella', 'Agencias Inmobiliarias, S.A.', 'Financiera Montañesa, S.A.' and 'Winter Tropical, S.A.') for their kindness in allowing us to use this material; and encourage the reader to dive with enthusiasm into the pages of this book, which we believe can help him/her to approach in a relatively 'friendly' way the usual Financial practice of a company. We, of course, have prepared it with all the affection in the world.

The Authors
Bilbao, January 2005

IMPORTANT NOTE: The reader should bear in mind that, as indicated above, a relatively large number of the presented Case Studies are based on real experiences of the Department's Professors, which have been reworked, thinking fundamentally that their figures will help the Student's learning, even if some are unrealistic at a given time, since they can also give rise to a discussion comparing the reality of the moment with that of other historical moments. Thus, in the cases presented in euros (or dollars), prices, Interest rates, inflation, etc. may sometimes be unrealistic, especially if we consider that with the arrival of the Euro, inflation or Interest rates were normally below 5% at the beginning of the 21st century.

NOTE TO THE THIRD EDITION: For the third edition, and within the process that we systematically review our materials, we have corrected some small errors and introduced some changes with which we intend, based on our experience in the use of the book itself, to improve its use by its users.

The Authors
Bilbao, January 2014

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