Financial Economics II – Corporate Finance
Fall 2013
Course Syllabus

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Case studies: Sergey Stepanov
Seminars: Ivan Larionov

Course Objectives

The main objective of the course is to develop skills for analyzing investment and financial decisions of a company. After a theoretical clarification of the objectives of a business firm, the course addresses the fundamental methods for the valuation of investment projects – net present value and real options analysis. After that, financial decisions of a company in a narrow sense are analyzed: the choice of the mix of equity and debt (capital structure), corporate hedging, and dividend policy. First, a classical approach is taken starting from the famous Modigliani-Miller theorem and extending it by the presence of taxes and costs of financial distress. Then, the same problems are analyzed considering agency problems due to asymmetric information. Applied topics such as IPOs, debt issues, mergers and acquisitions, and selected problems of corporate governance complete the course.

Prerequisites

Financial Economics I (Asset Pricing)

Methods

The following methods and forms of study are used in the course

- Lectures (one or two lectures of 80 minutes, alternating from week to week),
- Case studies (4 cases in total, each will be distributed at least one week in advance, you need to write up your solution, and it will then be discussed in a session of 80 minutes),
- Seminar (one seminar of 80 minutes once every two weeks),
- Written homework assignments. A central part of the course are homework assignments. Homework assignments have to be handed in at the due date,
- Presentation of case studies, journal articles and homework exercises in class.
• Self-study.

Main Reading

• Lecture notes provided by the lecturers.


• These two sources serve as introductory reading for each topic. Additional sources, such as journal articles, other book chapters, or case studies may be given during the course. Some of them are indicated in the course outline below.

Supplementary Reading


Evaluation

• Homework You may collaborate with your fellow students, but need to write up your individual solution. Identical solutions will be punished. All homework problem sets are marked. If you fail to submit on time the grade for this assignment is zero. The average grade on your homework assignments accounts for 10% of the final grade.

• Participation in class: General attendance and activity plus the ability to answer questions or give short presentations of journal articles, other readings or homework exercises account for 10% of the final grade. If you cannot attend lectures and seminars on a regular basis, you can ask one of the lecturers for an essay assignment. This typically involves additional reading. The deadline for handing in the essay is December 20, 2013.

• Case studies: Cases should be solved in groups of three to five (ideally four) people. A case write-up is meant to be a group work, and each group needs to submit a single collective solution indicating all group members. Written assignments on the case studies, presentation of case solutions in class, and active participation in the case study sessions account for 15%.

• The midterm exam accounts for 15%.

• The rest of the grade (50%) comes from the final exam.
The weights given above combine into your final grade for the course. However, you need to pass both the final exam and the whole course, i.e. get more than 35 out of 100, in order to get a passing grade.

Most of the questions in the midterm and the final exam will be similar in style to the homework assignments. That is, they are mostly quantitative exercises, but your understanding of general concepts of the course will be asked in some parts of them where you should interpret or explain some result. Also, some questions will be designed will check your knowledge of the journal articles and other readings that were given throughout the course. A short list of the relevant articles will be announced before the exams.

**Course Outline**

The number of lectures given in parenthesis is approximate. Only lectures, no practice sessions are counted. The total number of lectures is 48 (16 weeks times 3 lectures per week).

1. The Firm and Its Objectives [6 lectures]
   - The Fisher Separation Theorem: Why Should Shareholders Care about Net Present Value?
   - Theoretical foundations for the objective function of the firm
   - Ownership and Control: Do Managers Care about Net Present Value?

References:

* CWS 1, 2A, 2B

2. Net present value and capital budgeting [3 lectures]

References:

* BDM 2-9.
* CWS 2C-2H.

3. Capital structure I: The classical approach [8 lectures]
• Modigliani-Miller Theorem
• Taxes
• Case study #1
• Costs of bankruptcy and financial distress
• Capital budgeting with debt
• Case study #2

References:

* BDM 14-16, 18-19
* CWS 15

4. Corporate Risk Management [3 lectures]

• Types of risk and hedging instruments
• Why do corporations hedge?

References:

* BDM 30.
* CWS 17D.
5. Strategy and Real Options [6 lectures]

- Setting up a decision tree
- The option to delay an investment opportunity (timing option)
- The option to expand (growth option)
- The option to abandon an investment project

References:

* BDM 22
* CWS 9

6. Capital structure II [10 lectures]

- Taxes (continued)
- Investor conflicts
- Asymmetric information
- Interactions
- Case study #3

References:
* CWS 12, 15

7. Capital structure III [3 lectures]

- IPOs
- Debt Issues

References:

* BDM 23,24

8. Dividend policy [3 lectures]

- incl. Case study #4
References:

* BDM 17
* CWS 16


9. Mergers and acquisitions [3 lectures]

References:

* BDM 28
* CWS 18


10. Corporate governance [5 lectures]

- Performance Measurement and Compensation
- Ownership Structure

References:

* BDM 29
* CWS 13


