

Course information 2023-24

FN3025 Corporate finance

General information

MODULE LEVEL: 6

CREDIT: 30

NOTIONAL STUDY TIME: 300 hours

Summary

This course deepens students' understanding of concepts and theories to critically assess major corporate financial policy decisions. The course focuses in particular on a firm's capital structure and the impact of taxes, bankruptcy costs, agency conflicts, and asymmetric information on a firm's financing decisions. The course also discusses other classic topics in corporate finance, such as mergers and acquisitions and private equity. In developing tools to analyze these issues, students will consolidate the key concepts of corporate finance theory, including debt overhang and asset substitution. This course is designed to help students learn how to apply various theoretical frameworks to solve real-world problems that are commonly faced by corporate managers, investors, and entrepreneurs. Teaching delivery will include examination of real-life case studies.

Conditions

Prerequisite: If taken as part of a BSc degree, the following course(s) must be passed before this course may be attempted:

- FN2191 Principle of corporate finance **AND**
- EC2066 Microeconomics

Aims and objectives

This course aims to help students to deepen their understanding of concepts and theories to critically assess major corporate finance decisions. It also provides students with practical tools to solve real-world problems that are commonly faced by corporate managers, investors, and entrepreneurs.

Learning outcomes

By the end of the course, successful students will be able to:

- Explain and apply the frameworks to make capital budgeting decisions in all-equity firms
- List and explain the predictions of the Modigliani and Miller theorem for the impact of capital structure on firm value
- Discuss and critically assess the impact of corporate taxes and financial distress on capital structure and firm value
- Discuss and critically assess the effects of asymmetric information on capital structure and firm value

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- Explain and apply the valuation frameworks that take into account the firm's capital structure when making capital budgeting decisions
- Critically assess the economic consequences of mergers and acquisitions
- Critically assess the economic consequences of private equity

Essential reading

There is no essential reading outside of the course material. For supplementary reading in addition to the course content:

- J. Berk and P. DeMarzo, *Corporate Finance*. Addison-Wesley, Pearson Education, 2007.
- “Financial Markets and Corporate Strategy” by Hillier, Grinblatt, and Titman.
- “Corporate Finance” by Ivo Welch, which is available for free on <http://book.ivo-welch.info>. Look at the “general version”, not the “MFE version”.

Please note that these textbooks are suggested, not mandatory. They offer a slightly different treatment of the material than in the course content. The exam will be based on the material in the course and formative assignments. Please see specific reading guidance by topic in the outline section below.

Assessment

This course is assessed by a three-hour and fifteen-minute closed-book written examination.

Syllabus

- 1. Capital Budgeting 1 and 2:**
 - Berk and De Marzo: Chapters 2, 3, 4, 6, 7, 9, 12, 19
- 2. Capital Structure:**
 - Berk and De Marzo: Chapters 14, 15
 - Hillier, Grinblatt, and Titman: Chapters 14.1-14.3
 - Welch: Chapters 17
- 3. Taxes and Financial Distress:**
 - Berk and De Marzo: Chapters 15, 16
 - Hillier, Grinblatt, and Titman: Chapters 14.4, 16
 - Welch: Chapters 18, 19
- 4. Debt and Incentives:**
 - Berk and De Marzo: Chapter 16, 17
 - Hillier, Grinblatt, and Titman: Chapters 16.2
 - Welch: Chapters 19
- 5. Debt and Information:**
 - Berk and De Marzo: Chapters 16, 17
 - Hillier, Grinblatt, and Titman: Chapters 19.5-19.6
 - Welch: Chapters 19
- 6. Valuation WACC and APV:**
 - Berk and De Marzo: Chapters 18, 19
 - Hillier, Grinblatt, and Titman: Chapters 9,10,11
 - Welch: Chapters 2,4,14
- 7. Mergers and Acquisitions:**
 - Berk and De Marzo: Chapter 28
 - “New Evidence and Perspectives on Mergers” by Gregor Andrade, Mark Mitchell and Erik Stafford, 2001, Journal of Economic Perspectives

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8. Private Equity:

- “Leveraged Buyouts and Private Equity” by Steven Kaplan and Per Stromberg, 2009, Journal of Economic Perspectives
- “A note on Valuation of Venture Capital Deals” by Thomas Hellman, HBS case Study (E95-PDF-ENG)

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