ICEF, Higher School of Economics, Moscow

MSc in Financial Economics, 2nd year

Financial Economics II -- Corporate Finance

Fall 2014

Course Syllabus

**Lectures and case studies**: Kyeong Hun Lee and Sergey Stepanov

**Seminars:** Ivan Larionov

**Summary**

The main objective of the course is to present the modern approach to the financial analysis of a company and to teach the principles and techniques of evaluating the most important corporate decisions. The core of the course is the analysis of investment (capital budgeting) and financing (capital structure) decisions of a firm. We will first discuss the principles and techniques of selecting investment projects. Secondly, we will examine the determinants of the capital structure choices by firms as well as the notion of the optimal capital structure. We will then discuss how to value a company, taking into account its capital structure. We will also analyze how firms decide on their payouts to shareholders and what the optimal payout policy should be. Finally, we will cover initial public offerings, mergers and acquisitions, corporate governance, and risk management.

Prerequisites: Financial Economics I (Asset Pricing), Microeconomics

**Methods**

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

* Lectures (one or two lectures of 80 minutes per week, alternating from week to week).
* Seminars (one seminar of 80 minutes once every two weeks).
* Self-study
* Case studies (3 cases in total). Cases are to be solved in groups of max. 5 people. Each case will be discussed in a session of 80 minutes. You may be asked to present your solutions in class.
* Homework assignments (problem sets) to be solved individually

**Course Materials**

**Required reading:** Jonathan Berk and Peter DeMarzo (BD), Corporate Finance, 2007, Pearson (or a later edition)

**Additional readings:**

* Welch, Ivo, Corporate Finance, 3nd edition, 2014, available for free at <http://book.ivo-welch.info/ed3/>
* Hillier, David, Mark Grinblatt, and Sheridan Titman (HGT), Financial Markets and Corporate Strategy: 2nd European Edition, 2011, McGraw-Hill.
* Copeland, Thomas E., Weston, J. Fred, and Kuldeep Shastri (CWS), Financial Theory and Corporate Policy, 4th edition, 2005, Pearson.
* Tirole, Jean, The Theory of Corporate Finance, Princeton and Oxford: Princeton University Press, 2006.

Other materials and lecture slides will be available at mief.hse.ru

**Evaluation**

Home Assignments: 15%

Cases (including evaluation of presentations): 10%

Midterm exam: accounts for 25%.

Final exam: 50%

The weights given above combine into your final grade for the course. However, you need to receive at least 20% at the final exam and 30% in aggregate in order to pass the course. There will be no re-take for the midterm exam. If you have to skip the midterm exam due to a valid documented reason, the final exam will automatically carry 75% weight. If you skip the midterm exam for no valid reason, you simply get 0 points for it.

**Course Outline**

The number of academic hours given in parenthesis is approximate. 1 academic hour = 40 min. Only lectures, no practice sessions are counted.

1. Introduction. Recap on accounting, computation of FCF (3 hours)

Readings: BD, ch. 1, 2, 7; Welch, ch. 1, 13.

1. Capital budgeting rules. Sensitivity and scenario analyses. Projects with unequal lives (5 hours)

Readings: BD, ch. 6, 7, 22.6; Welch, ch. 4; 12.

1. Real options (4 hours)

Readings: BD, ch. 20-22; Welch, ch. 12.6; CWS, ch. 7, 9.

1. Capital structure. Perfect world (2 hours)

Readings: BD, ch. 14, 23, 24; Welch, ch. 15, 16.

1. Capital structure. Effect of taxes and costs of fin distress. Static trade-off theory

+ Case discussion (5 hours)

Readings: BD, ch. 15-16.4; Welch, ch. 17, 18

1. Capital structure. Effects of agency problems (4 hours)

Readings: BD, ch. 16.5-16.7; HGT, ch. 16-18; Welch, ch. 18; Tirole, ch. 3-5 (more advanced level)

1. Capital structure. Effects of asymmetric information + Case discussion (4hours)

Readings: BD, ch. 16.8-16.9; HGT, ch. 19; Welch, ch. 18; Tirole, ch. 6 (more advanced level)

1. Capital structure. Empirical evidence (2 hours)

Readings: a few academic papers, to be provided

1. Capital structure and valuation methods (WACC, APV, FTE) (3 hours)

Readings: BD, ch. 9, 18-19; Welch, ch. 12.1-12.3, 14, 17.3-17.6

1. Initial public offerings (3 hours)

Readings: BD, ch. 23; Welch, ch. 21F-G (from companion to main textbook)

1. Payout policy (4 hours)

Readings: BD, ch. 17; Welch, ch. 19

1. Corporate governance (+M&A) + Case discussion (7 hours)

Readings: BD, ch. 28, 29; HGT, ch. 20; Tirole, ch. 11 (more advanced level); a few academic papers, to be provided

1. Risk management (3 hours)

Readings: BD, ch. 30; HGT, ch. 21-23.