



APPLIES TO ACADEMIC YEAR 2007/2008

GRA 6541 Advanced Corporate Finance

Program

Advanced Specialization Course (MSc), Master of Science in Business and Economics, Master of Science in Business and Economics (Finance), Master of Science in Financial Economics

Responsible for the course

Ibolya Schindele

Department

Financial Economics

Term

According to study plan

ECTS Credits

6

Language of instruction

English

Problems arising from asymmetric information among participants in financial markets are central to the theory and practice of corporate finance.

Objective

The objective of this course is to familiarize students with information problems related to firms' corporate financing and governance decisions. In particular, the course teaches students for the design of financial contracts that mitigate the problems of asymmetric information between firms/managers and their financiers and thereby improve the terms at which firms receive financing. The use of collateral, the allocation of control rights, and the provision of monitoring incentives will be shown to be important in this respect. The course builds on the theory of incentives and uses the tools of contract and game theory to analyze information problems and their consequences for firms' financing choices.

Prerequisites

Corporate finance (GRA6025 Financial Management or equivalent)
Microeconomic theory (GRA6031 Microeconomics or equivalent)

Compulsory literature

Books:

Tirole, Jean. 2006. The theory of corporate finance. Princeton, N.J. : Princeton University Press

Recommended literature

Books:

Hart, Oliver. 1995. Firms, contracts, and financial structure. Oxford : Clarendon
Laffont, Jean-Jacques and David Martimort. 2002. The theory of incentives : the principal-agent model. Princeton, N.J. : Princeton University Press

Course outline

1. Modeling of Asymmetric Information Problems
2. Credit Rationing Due to Adverse Selection and Moral Hazard
3. Determinants of Debt Capacity: Diversification and Group Lending
4. Corporate Liquidity Demand and Free Cash-flow
5. Market Monitoring: Entry, Exit and Speculative Monitoring
6. Investor Activism: Boards of Directors and Large Creditors
7. Control Rights in Corporate Finance
8. Takeovers

Computer-based tools

Blackboard/homepage, Electronic Journal Databases

Course structure

36 hours of lecture and class discussion.

Specific Information regarding any aspect of student evaluation will be provided in class. Please note that whilst attendance is not compulsory, it is the students responsibility to obtain any information provided in class that is not included on the course homepage/Blackboard or text book. Homepages and/or Blackboard are not designed for the purpose of students who choose not to attend class.

Evaluation

Your course grade will be based on the following activities and weights:
20% Class work (in the form of a mix of some/ all of the following: hand in of case write ups, projects, and homeworks; case presentations and class participation;
in class midterm and quizzes). Final written 3 hour exam accounts for 80% of the grade.
Both parts of the evaluation need to be passed in order to get a grade in the course.

Evaluation code(s)

GRA 65411 counts for 100% of the grade

Aids at the examination

Bilingual dictionary and advanced calculator

Makeup exam

Re-takes are possible only at the next time the course will be held. When course evaluation consists of class participation and process elements, the whole course must be re-evaluated when a student wants to retake the exam. Retake examinations entail an extra examination fee.

Honor Code

Academic honesty and trust are important to all of us as individuals, and represent values that are encouraged and promoted by the honor code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honor code system, to which the faculty are also deeply committed.

Any violation of the honor code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academy integrity. If you have any questions about your responsibilities under the honor code, please ask.