



APPLIES TO ACADEMIC YEAR 2010/2011

FIN 3512 Corporate Finance

Programme

Bachelor in Finance (2. year)

Responsible for the course

Department

Term

According to study plan

ECTS Credits

7,5

Language of instruction

English

Introduction

The main subject of interest is stock exchange listed firms decisions regarding issuance of debt and equity, as well as their redistribution of free cash flow to shareholders. These decisions affect, and are typically affected by, general economic conditions such as the level of interest rates, the current phase of the business cycle, etc.

Learning outcome

Acquired knowledge

Upon completion of the course, students are required to master tasks such as:

- Restructuring corporate balance sheets following firms' capital structure decisions, i.e. their mix of debt and equity.
- Conditions that must be satisfied for capital markets to be perfect.
- Why capital structure decisions cannot impact valuation in perfect markets.
- Compute how taxes and other impediments to perfect markets influence firms' cost of capital.
- Compute option-derived valuations of corporate debt and equity.
- Compute the overall gain from mergers and acquisitions (M&As).
- Compute gains and costs from corporate financial management.

Acquired skills

Students having completed the course are required to satisfactorily conduct analytical exercises such as:

- Explaining the impact of corporate capital restructurings in terms of operational choices and strategies.
- Explaining the impact of corporate capital restructurings in terms of signalling private information on future business prospects to capital markets.
- Explaining why debt and equity finance may initiate, even escalate, conflicts of interest between major corporate stakeholders.
- Explaining when and why M&A-activity may be detrimental to the overall economy.
- Explaining why financial risk management activity may enhance the corporate sector's overall stability and thus profitability.

Reflection

Topics covered enable students to critically challenge main paradigms of free capital markets with respect to questions such as: are salaries and bonuses in the financial services industry sustainable according to marginal productivity? Do investment banks 'sweeten' price-estimates in order to obtain new underwriting business? Or - why do firms hesitate to release unpleasant news (surprises to the market) regarding future earnings and profits?

Prerequisites

Foundation courses from year one: BØK 3411 Finance and Managerial Accounting I, BØK 3421 Finance and Managerial Accounting II, MET 2910 Mathematics, and MET 2920 Statistics or equivalent.

Compulsory reading

Books:

Berk, Jonathan and Peter DeMarzo. 2010. Corporate Finance. 2nd ed. Boston : Prentice Hall. 290

Recommended reading

Course outline

The course is comprised of three integrated modules:

Module 1: Capital Structure Decisions

- Capital Structure in Perfect Markets: The Irrelevancy theorems
- Impediments to Perfect Markets: Taxes and Agency costs
- Corporate Payout Policy

Module 2: Valuation

- Capital Budgeting and Valuation with Leverage
- Debt and Equity Valued as Financial Options

Module 3: Special Topics

- Mergers and Acquisitions
- Corporate Risk Management
- International Corporate Finance

Computer-based tools

Excel spreadsheet models are highly recommended for problem-solving. It's learning is used for submitting answers to problems on six (6) mandatory home assignments.

Learning process and workload

The course is build around lectures, home assignment problems (reviewed in-class by instructor), and individual reading of assigned chapters from the text as well as work on designated end-of-chapter problems. Conduct of class and teaching style assumes students showing up for class are properly prepared.

Recommended workload in hours

Activity	Hours
Class attendance	36
Preparation for class	120
Mandatory home assignments	24
Preparation for the examination	20
Total recommended use of time	200

Coursework requirements (Mandatory)

Students are required to electronically submit six (6) home assignments in order to take the final exam. The home assignments are posted approximately one week before each due date. A passing score is required on five of the six assignments. In order to obtain a passing score, 50% of the problems must be correctly solved. Two attempts are allowed per assignment. More administrative details are provided in class. The exam is given by the end of the lectures series.

Feedback on the assignment problems is provided in two ways:

1. It's learning automatically sums up and returns to students their overall score upon submission of the answers.
2. A review of the assignment problems is given during the first class-meet following each due date.

Use of hours

36 hours - class (lecturing)

9 hours - spent on mandatory home assignment problems

45 hours total

Coursework requirements

In order to sit for the final exam, students are required to electronically submit six (6) home assignments of which (5) must be approved by the lecturer. Se Learning process and workload.

Examination

A five (5) hour individual written, closed-book exam concludes the course.

Examination code(s)

FIN 35121 - Written exam counts for 100% of course grade in FIN 3512 Corporate Finance; 7,5 ECTS credits.

Examination support materials

Interest tables and BI-defined exam calculator. TEXAS INSTRUMENTS BA II Plus™

For more information, please visit our web-based Student Handbook at <http://www.bi.edu/studenthandbook/examaids>

Re-sit examination

A re-sit examination is offered the next time course is offered. Students not having obtained a passing score on the mandatory home assignments are required to submit a new series of six - 6 - home assignments during the next ordinary lectures series. Students failing the exam, or wishing to improve previous grades, may retake the exam at the next scheduled exam date.

Additional information