APPLIES TO ACADEMIC YEAR 2010/2011

GRA 6541 Advanced Corporate Finance

Programme
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

Department

Term
According to study plan

ECTS Credits
6

Language of instruction
English

Introduction
Problems arising from asymmetric information among participants in financial markets are central to the theory and practice of corporate finance. This advanced level course teaches students the economic modeling of asymmetric information problems related to firms' corporate financing and governance choices and discusses several real-life consequences of the incentive problems arising from asymmetric information.

Learning outcome
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 problem of moral hazard 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. Students will acquire knowledge on how, using the tools of contract and game theory, one can rationalize credit rationing as an equilibrium phenomenon in financial markets and understand several other important features of intermediated financing.

Prerequisites
Microeconomic theory (GRA6031 Microeconomics or equivalent)

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

Other:
During the course there may be hand-outs and other material on additional topics relevant for the course and the examination.

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

Course outline
1. Introduction to Corporate Financing and Corporate Governance
2. Game Theory: Basic Concepts
3. Moral Hazard and Credit Rationing
4. Determinants of Borrowing Capacity: Diversification and Group Lending
5. Market Monitoring: Entry, Exit, and Speculation
6. Investor Activism: Boards of Directors and Large Creditors

7. Control Rights and Corporate Governance

Computer-based tools
It's learning/homepage, Electronic Journal Databases

Learning process and workload
A course of 6 ECTS credits corresponds to a workload of 160-180 hours.
Lectures and class discussion. Students are expected to rework through the lecture material following every three-hour lecture. Furthermore, for some weeks, they are expected to prepare solutions for particular models as homework exercise. As for the assignment, students may be asked to write reviews of articles related to the lecture material, and make in-class presentation in groups.

Please note that while attendance is not compulsory in all courses, it is the student’s own responsibility to obtain any information provided in class that is not included on the course homepage/It's learning or text book.

Examination
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 and class participation).
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.

Specific information regarding student evaluation beyond the information given in the course description will be provided in class. This information may be relevant for requirements for termpapers or other hand-ins, and/or where class participation can be one for several elements of the overall evaluation.

This is a course with continuous assessment (several exam elements) and one final exam code. Each exam element will be graded using points on a scale (e.g. 0-100). The elements will be weighted together according to the information in the course description in order to calculate the final letter grade for the course. You will find detailed information about the point system and the cut off points with reference to the letter grades on the course site in It’s learning.

Examination code(s)
GRA 65411 accounts for 100% of the grade in GRA 6541

Examination support materials
A bilingual dictionary and BI-approved exam calculator.
Exam aids at written examinations are explained under exam information in our web-based Student handbook. Please note use of calculator and dictionary.
http://www.bi.edu/studenthandbook/examaids

Re-sit examination
It is only possible to retake an examination when the course is next taught.
The assessment in some courses is based on more than one exam code.
Where this is the case, you may retake only the assessed components of one of these exam codes.
Where this is not the case, all of the assessed components of the course must be retaken.
All retaken examinations will incur an additional fee.

Additional information
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 academic integrity. If you have any questions about your responsibilities under the honor code, please ask.