



APPLIES TO ACADEMIC YEAR 2011/2012

## FIN 3512 Corporate Finance

### Programme

Bachelor in Finance (2. year)

### Responsible for the course

Knut Sagmo

### Department

Department of Financial Economics

### Term

According to study plan

### ECTS Credits

7,5

### Language of instruction

English

### Introduction

The main topic of interest is stock exchange listed firms capital structure decisions, i.e. choice between debt and equity, as well as their redistribution of free cash flow to shareholders. These decisions both affect, and are 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 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 why financial risk management activity may enhance the corporate sector's overall stability and thus profitability.

#### Reflection

Topics covered enable students to critically challenge some of the main paradigms of free capital markets such as: Should salaries and bonuses in the corporate sector be set according to marginal productivity? What are the potential harms to the investing public from investment banks' sweetened 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 courses.

#### Compulsory reading

##### Books:

Berk, Jonathan and Peter DeMarzo. 2011. Corporate finance. 2nd ed. Pearson. 290. Latest

edition of the textbook used in class.

### Recommended reading

#### Books:

Ross, Stephen A. ... [et al.]. 2008. Modern financial management. 8th ed. McGraw-Hill/Irwin

### 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

- Corporate Risk Management

### 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 builds around lectures, home assignment problems (reviewed in-class by instructor), individual reading of assigned chapters from the text, and independent work on the end-of-chapter problems. Conduct of class and teaching style assumes students attending class are familiar with the material being lectured on. Allocation of studying-hours as follows is recommended:

Activity	Hours
Attendance in class	36
Problem-solving in class	9
Independent reading/preparation for class	120
Mandatory four work assignments	16
Final exam preparation	19
<b>Sum</b>	<b>200</b>

#### Coursework requirements (Mandatory)

During the course there will be given four assignments of which two are classroom tests of 45 minutes, and two are electronic and distributed on It's learning. The assignments given on It's learning are to be submitted electronically. Three of these assignments must be approved in order to be allowed to sit for final exam. The exam is given by the end of the lectures series. Administrative details will be provided in class.

Feedback on the assignment problems is provided in two ways:

1. It's learning sums up and automatically 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 assignment.

#### 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 must get approved minimum three of four assignments during the course. See 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 the 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 four work assignments during the next ordinary lectures series. Students failing the exam, or wishing to improve previous grades, may retake the exam conditional upon having approval of the semester's work assignments.

**Additional information**