DRE 7009 Corporate Finance Theory

Programme
Finance

Responsible for the course
Bruno Gerard, Charlotte Østergaard

Department
Department of Financial Economics

Term
According to study plan

ECTS Credits
6

Language of instruction
English

Introduction

Please note that this course will be revised before it is offered again

This course is a rigorous introduction to modern theories of corporate finance. The first half of the course establishes foundational concepts, beginning with the neoclassical and tradeoff models, and then moving to agency problems and asymmetric information. The second half of the course focuses on a select group of topics, including internal capital markets, diversification, and mergers, where recent research has significantly advanced our understanding and in some cases reversed what was previously believed. The theories will be motivated with well-documented empirical regularities, yet empirical papers will not be covered rigorously for lack of time. Empirical research in corporate finance is covered in greater depth in DRE 70XX Empirical Corporate Finance and in DRE 70XX Topics in Corporate Finance.

Learning outcome
The goal of the course is to familiarize students with central theories underpinning research in corporate finance.

Prerequisites
Admission to a PhD Programme is a general requirement for participation in PhD courses at BI Norwegian Business School.

The course builds on concepts developed in DRE 4010 and familiarity in basic finance theory.

External candidates are kindly asked to attach confirmation of admission to a PhD programme when signing up for a course with the doctoral administration.

Other candidates may be allowed to audit the course by approval of the course leader. Being allowed to audit the course does not give right to register for the course, handing in exams or getting credit for the course. No certificates or confirmation letters will be issued for auditing the course.

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

Collection of articles:
A collection of articles

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:
Constandinides G. M., M. Harris and R.M. Stulz. 2003. Handbook of the economics of finance Part 1A Corporate finance. Elsevier

Course outline

PART I. Capital Structure: Debt versus Equity
1. Neoclassical Model and Tradeoff Model
2. Security Choice: Agency Problems & Asymmetric Information

PART II. Security Design/Financial Contracting
3. Assigning Cash Flow
4. Assigning Control Rights

PART III. TOPICS
5. Product and Capital Market Interactions
6. Investment-Cash Flow Sensitivity
7. Internal Capital Markets
8. Diversification
9. Finance and Development
10. Corporate Governance
11. Mergers and Acquisitions

Course Structure

Weekly class meetings are organized around lectures that develop models and discuss empirical results. Students are required to participate in the class through presentations of some of the assigned papers and discussions of the topics of the lectures. Homework may be assigned.

Computer-based tools

Learning process and workload

Workload (6ECTS):

Lectures:	30 hours
Specified Learning Activities (including reading)	75 hours
Autonomous Student learning (including exam preparation)	75 hours
Total:	**180 hours**

Examination

Grades will be assigned on the basis of the following:

Assignments	20%
Class participation and presentations	20%
Final exam (3 hours)	60%

Course will be graded A-F.

Examination code(s)

DRE 70091 for 100 % of the grade in the course

Examination support materials

All course documents

Re-sit examination

Next time the course is offered

Additional information

Honour Code

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

Any violation of the honour 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 honour code, please ask.