



01120930 Corporate Finance

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| Course Code | 01120930 | Course Name | Corporate Finance |
| Course Type | Commerce | Prerequisite | N/A |
| Instructor | TBA | Other Teachers | TBA |
| Total Hours | 48 Teaching Hours | | + Self Study Hours |

Learning Objective

By the end of this course you should be able to:

- Analyse whether a proposed corporate transaction is in the best interests of the firm's shareholders.
- Estimate a firm's weighted average cost of capital under classical and imputation systems, and analyse the relationship between capital structure, the cost of capital and value.
- Perform a discounted cash flow valuation and analyse its sensitivity to alternative assumptions underlying its cash flows and discount rate.
- Identify real options which are likely to affect firm value and perform a real options valuation.

Course Description

This course is designed as an introductory level course in corporate financial management. The purpose of this course is to provide the conceptual foundations for making intelligent financial decisions by developing an understanding of modern corporate financial theory and practice. The course covers different securities used to raise external capital with an emphasis on the institutional aspects of acquiring capital. Capital structure theory is explained in detail with an in-depth analysis of market imperfections such as taxes, cost of financial distress, agency and informational issues.



Payout policy and different payout strategies are discussed. The course then introduces different financing instruments and strategy, followed by discussions of corporate liquidity management. The course ends with the discussion of special topics dealing with the market for corporate control and corporate governance. Throughout the course, theoretical discussions will be accompanied by numerical examples, analysis of real-world examples, evaluation of empirical evidence, and a case.

Summary of Course delivery

This course has a total of 48 teaching hours and includes a compulsory field trip.

The table below summarises the delivery method for this course.

| Lectures | Guest Speakers | Seminars | Group Activities | Field Trip(s) |
|-----------|----------------|-----------|------------------|---------------|
| √ | √ | | √ | √ |
| Tutorials | Projects | Pitch(es) | Presentations | Others |
| √ | | | √ | |

Course Schedule (TBC)

| Topics | Activities |
|----------------------------------------------------------------------------------|--------------------------|
| Course Introduction - What is the corporation? | Lecture; Tutorial |
| Corporate Financing Decision - Debt vs. Equity | Lecture; Tutorial |
| Capital Structure in a Perfect Market - Modigliani and Miller Theorem | Lecture; Tutorial |
| Capital Structure in an Imperfect Market (1) - The Interest Tax Shield | Lecture; Tutorial |



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| Capital Structure in an Imperfect Market (2) <ul style="list-style-type: none">- Bankruptcy Cost- Agency Cost of Debt | Lecture; Tutorial |
| Optimal Capital Structure <ul style="list-style-type: none">- Trade-off Theory vs. Pecking Order Theory | Lecture; Tutorial |
| Cost of Capital: <ul style="list-style-type: none">- Choosing the correct risk-free rate- Calculating the correct project beta- Calculating the correct market price of risk | Lecture; Tutorial |
| Corporate Payout Policy | Lecture; Tutorial |
| Valuation: Valuing of Projects/Firms <ul style="list-style-type: none">- Introduction to Corporate Valuation- Estimating Free Cashflows | Lecture; Tutorial |
| Financing Instrument (1) <ul style="list-style-type: none">- Equity Financing | Lecture; Tutorial; Quiz |
| Financing Instrument (2) <ul style="list-style-type: none">- Debt Financing | Lecture; Tutorial; |
| Financing Instrument (3) <ul style="list-style-type: none">- Optimal External Financing- Financing Instruments & Strategy | Lecture; Tutorial |
| Corporate Liquidity Management <ul style="list-style-type: none">- Value of Liquidity- Corporate Liquidity Policy | Lecture; Tutorial |
| Corporate Cash Holdings | Lecture; Tutorial |



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| The market for Corporate Control - Mergers and Acquisitions | Lecture; Tutorial; |
| Corporate Governance - Agency Problem | Lecture; Tutorial; Assignment submission |

Assessments

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|----------------------------|------------|
| Class Participation | 10% |
| Quiz | 15% |
| Assignment | 25% |
| Final exam | 50% |

Note: Class Participation

Participation can take many different forms. Engagement in class discussion with thoughtful questions and answers benefiting all students will improve your participation score. Disruptive behaviour will be detrimental to your participation score. The lecturer may consider the use of computers and other electronic devices to be disruptive to the class. Please ensure all your devices are turned off before the start of class.

Class (Tutorial) participation (10%):

Active engagement in class activities and discussions are encouraged to consolidate what has been learnt in lectures. Class participation is essential towards developing a comprehensive understanding of the learning outcomes and expectations placed on students. Students are expected to participate and actively engage in all class discussions in order to ensure that they gain a more holistic learning experience. Those who are unwilling to contribute or participate in class discussions should expect relatively low-class participation grade even if they are physically present in all classes.

To further enhance the learning experience, it is also important for you to engage in regular discussions with other students, in exchanging knowledge and ideas with



regards to this course and its key topics. Students are expected to be present and punctual for all their classes. Lateness and causing disruption to other students is not acceptable and will not be tolerated. Doing so will lead to the deduction of class participation marks. Students are expected to be respectful towards their peers, their lecturers and all other staff members. If you are not ready to meet these basic expectations, this may not be a suitable option of study for you.

Quiz (15%):

Type: Examination Weight: 15%

Length: A 40 minutes quiz conducted in the class. Task: This is a closed book examination.

Details of the test will be announced and discussed in class.

Assignment (25%):

Students will be allocated into groups to complete a group assignment relating to course topics. They are required to work collaboratively with each other to complete this task and present it to the class through a speech (optional). Details of the assignment will be announced and discussed during the class.

- 5 pages maximum in A4,
- 12 point Times New Roman font
- Single line spacing
- Late submission will attract a penalty of 10% of the total weighting of the assessment task. A 10% deduction applies for EACH late day and the assessment will not be accepted after 5 working days. Extensions will only be granted upon the basis that there is reasonable medical evidence of illness or any other extreme circumstances. Under no circumstances will extensions be granted for work or any other commitments. A request for an extension must formally be submitted to the lecturer in writing prior to the due date, in accordance with the assessment policies. Medical certificates or other evidence of extreme misfortune must be submitted through a special consideration form and must contain information that justifies the extension sought.

Final examination (50%):

Type: Examination



Weight:50%

Length: A two hours formal final examination will be scheduled by the lecture and conducted in the class.

Task: This is a closed book examination.

Students should expect a variety of differently structured questions such as multiple choice answers, short answer questions, and extended responses. Students are expected to attempt all components of the exam to their best of their abilities. Students will be provided with samples questions and a comprehensive explanation of exam instructions.

Please make sure that you are physically present in all classes, especially on examination dates. No make-up tests or examinations will be provided.

Reference Books

Peirson, G., Brown, R., Easton, S., Howard, P. & Pinder S. Business Finance, McGraw-Hill, 12th edition, 2014

The lecture notes will be handed out during class.