

Advanced Corporate Finance

Module 3, Academic Year 2020-2021

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Course information

Course Website: my.nes.ru

Instructor's Office Hours: find me on Skype [pavle.radicevic](https://www.skype.com/people/pavle.radicevic)

Class Time: TBA

Room Number: online

TAs: TBA

Course description

The goal of this course is to familiarize you with the fundamentals of Corporate Finance and to discuss the most important financial decisions of a firm. The core of the course is the analysis of capital budgeting, capital structure and valuation. The capital budgeting topics will cover various techniques of evaluating and comparing projects, including the real option analysis. The capital structure topics will examine the choice of sources of finance for a firm; in particular, the choice between debt and equity financing. We will then discuss valuation of a firm (including private firms), taking into account its choice of the capital structure. In addition, we will also cover treatment of capital budgeting in the international setting.

In addition, the course will also discuss some advanced topics in Corporate Finance. This component will cover: financial contracting, corporate hedging and ownership. The textbook treatment of these topics lacks depth, so additional readings will be provided on mynes. Required reading will be indicated. "Optional readings" are materials students may want to read before class or after class, but they are not required. They may be the subject of class discussion, but the discussion should presume that not all students have read them. Research papers will fall in the group of optional readings.

Course requirements, grading, and attendance policies

Course prerequisites: Financial Markets and Instruments

Attendance policy: There is no formal attendance policy, however, the attendance of each class is strongly recommended.

Grading policy: The grade for the course will be based on two individual assignments (20% each), and a final exam (60%).

The assignments are due at specified times (uploaded electronically to my.nes.ru or sent to the TA by email (cc me)) and will not be accepted after the deadline (unless in exceptional circumstances, provided that you have arranged with me in advance). For your own understanding it may also be helpful to try solving problems at the end of the relevant chapter of the book.

Course contents

The course schedule (both in content and in order), with an approximate number of lectures for each topic in brackets is given below; a star indicates time-permitting or to be covered at the seminar.

(2) Introduction to capital structure. Modigliani-Miller propositions. Capital Structure anomalies. BD 14, W 16, 17, RWJ 15.1-15.4, BMA 17, HGT 14.1-14.3 (R) to be specified

(2) Costs and benefits of debt finance. Taxes (corporate and personal) and costs of financial distress.

BD 15, 16, W 17, 18, RWJ 15.5, 16.1-16.4, BMA 18.3, HGT 14.4, 14.5, 16.1, 17.1-17.3

(1) Financial Contracting: Agency costs of equity and debt; (*) Information Asymmetries.

BD 16.5-16.9, W 18.3-18.5, RWJ 16.5-16.7, BMA 18.4, HGT 16 plus assigned readings

(2) Valuation of the leveraged firm. APV, WACC and FTE methods. Valuation of private firms. International capital budgeting.

BD 18, 31, W 17, 18, W 17, 18.1-18.2, RWJ 15.5, 16.1-16.4, BMA 18.3, HGT 14.4, 14.5, 16.1, 17.1-17.3

(1) Risky projects: CE vs RADR. Introduction to real options: types and examples, binomial model.

(*) Real options: Black and Scholes, Monte-Carlo simulations

BD 22, W 12.6, RWJ 8.4, 22-23, BMA 10.4, 20-22, CWS 9, Megginson 6.6, 6.9

(2) Corporate Hedging: BD 30, Additional readings provided

- Rationale for managing corporate risk
- Foreign exchange risks
- Hedging Failure Examples
 - i. FX Hedging - Transneft Case
 - ii. Jet Fuel hedging – Southwest Airlines (*)

(2) Ownership Structure and Corporate Policies: BD 29.6, Additional readings provided

- Corporate Ownership around the world
 - i. Ownership structures and implications for control
 - ii. State Ownership and Partial Privatizations – Efficiency and Incentives
 - iii. Family Firms
- Panama Papers Scandal

Course materials

Required textbooks and materials

(BD) Berk and DeMarzo, *Corporate Finance*, Pearson International Edition, First Edition, 2007.

(R) Research Papers will be assigned for each week and posted on mynes. This will be a mix of theory, both in discrete and continuous time, as well as empirical research.

(W) Welch, *Corporate Finance: 3rd Edition*, 2014. The book is freely available in electronic form (but not for download) at <http://book.ivo-welch.info/ed3/> – this is a relatively new textbook, which has very good intuition on some fundamental issues in Corporate Finance, but some more advanced topics (which we will cover in this class) are not covered.

Additional materials

(RWJ) A recent edition of Ross-Westerfield-Jaffe *Corporate Finance* (e.g. the 6th edition, 2002, or Ross-Westerfield-Jordan-Jaffe *Core Principles and Applications*, 3rd edition Global, 2011, available in the library).

(BMA) A recent edition of Brealey-Myers *Principles of Corporate Finance* would be a nice complement to the main textbook (e.g. Brealey-Myers-Allen *Principles* 8th edition is available in the library).

Books especially helpful for specific topics:

(HGT) A recent edition of Grinblatt-Titman *Financial Markets and Corporate Strategy* (e.g. the European edition, 2008, by Hillier-Grinblatt-Titman, is available in the library). This is a more advanced textbook and treats some issues that we cannot discuss in detail in class.

(Megginson), Megginson, *Corporate Finance Theory*, Addison and Wiley, 2001.

(CWS) Copeland, Weston, Shastri, *Financial Theory and Corporate Policy*, 4th edition, 2004.

Graham, John R. and Leary, Mark T., A Review of Empirical Capital Structure Research and Directions for the Future (April 7, 2011). Annual Review of Financial Economics, Vol. 3, 2011. Available at SSRN: <http://ssrn.com/abstract=1729388>

Academic integrity policy

Read the NES Honor Code. You must not cheat on the problem sets and final and must report any violations to me. We may also make random copies of exams.