

FINANCE (FM250)

Course duration: 54 hours lecture and class time (Over three weeks)

LSE Teaching Department: Department of Finance

Lead Faculty (session one): Dr Dong Lou and Dr Georgy Chabakauri

Lead Faculty (session three): Dr Ashini Agrawal

Pre-requisites: Introductory microeconomics, elementary quantitative methods.

Textbook:

Brealey R. and Myers S. and Allen F., *Principles of Corporate Finance*, (12th ed.), McGraw-Hill, (2016).

Other Textbooks:

- Grinblatt M. and S. Titman, *Financial Markets and Corporate Strategy*, (2nd ed.), McGraw-Hill, (2001).
- Berk J. and DeMarzo., *Corporate Finance, Pearson International Edition*, (2007).
- The textbook by Brealey, Myers and Allen (henceforth “BMA”) offers the best comprehensive treatment of the subject and is an excellent introductory book.
- Grinblatt & Titman and Berk & DeMarzo can be considered as additional textbooks, and will provide important supplementary reading for the second part of the course.

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Lecture slides to be handed out will summarize relevant additional material.

Course Outline:

Session 1.

Introduction to capital markets;

Net present value technique

Valuation of equity and fixed income (bond) instruments

Concept of no arbitrage.

- Readings: BMA Chapters: 1-3, 5-7 and lecture slides

Session 2. Bond valuation
Duration and its application
The term structure of interest rates
Yield to maturity
Passive bond management.

Readings: BMA Chapters: 4, 24 - 25 and lecture slides.

Session 3. Introduction to risk and return
Mean-Variance analysis
Benefits and limits of diversification
Portfolio theory with one asset
Portfolio theory with multiple assets

Readings: BMA Chapters: 8 - 9 and lecture slides.

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Session 4. The Capital Asset Pricing Model (CAPM)
An intuitive proof of the CAPM
Implications of the CAPM
Empirical evidence on the CAPM.

Readings: BMA Chapter: 9 and lecture slides.

Session 5. Definitions of market efficiency
Different forms of market efficiency
Implications to investors
Introduction to behavior finance

Readings: BMA Chapter: 14 and lecture slides.

Session 6. Introduction to derivative instruments

Forward and futures contracts

Stock options

Binomial option pricing model

Put-call parity.

Readings: BMA Chapters: 21, 22, 27 and lecture slides.

Session 7. Real Options

Applications to the evaluation of company projects

Applications of option pricing techniques

Readings: BMA Chapter: 23 and lecture slides.

Session 8. Introduction to corporate finance

Capital structure choices (between debt and equity)

The Modigliani and Miller (1958) Model

Implications for the firm.

Readings: BMA Chapter: 18 and lecture slides.

Session 9. Further issues in capital structure

Tax burdens

Bankruptcy costs

Implications for the firm

Readings: BMA Chapter: 19 and lecture slides.

Session 10. Agency Costs

Conflicts between shareholders and debt holders
Associated theories of capital structure
Interactions of investment and financing decisions.

Readings: Lecture slides.

Session 11. Dividend policy

Why firms pay dividends
Dividend initiations, omissions, and revisions

Readings: BMA Chapter: 17 and lecture slides.

Session 12. Introduction to initial public offerings

Why firms choose to go public
Market reactions to public offerings

Readings: BMA Chapter: 16 and lecture slides.

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Credit Transfer: If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to summer.school@lse.ac.uk