

## ADVANCED CORPORATE FINANCE (FM350)

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

**LSE Teaching Department:** Department of Finance

**Lead Faculty:** Dr Juanita Gonzalez-Uribe

**Pre-requisites:** Finance (to the level of FM250) and Introductory Microeconomics (to the level of EC101).

### Course Objective:

This course is a broad overview of major topics in Corporate Finance. Students are assumed to have seen many of the topics in earlier courses; however this course provides more in depth coverage. We learn how to solve many of the models used by Corporate Finance researchers. At the same time we will review empirical evidence which supports or rejects these.

The major theme of the course is the firm's capital structure and payout decision. We will see that under certain assumptions, this decision is irrelevant, this is the Modigliani and Miller Theorem. We will then loosen these assumptions to see when it may be better for firms to issue debt versus equity, or repurchase shares rather than issue dividends. We will see how these assumptions differ in different legal or tax environments.

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In addition the course covers methods for valuing corporate securities. We will also learn how to apply the real options framework to the problem of a firm choosing optimal corporate or investment policy. Finally, we will cover several special topics in Corporate Finance, including Banking and IPOs.

### Textbook:

Grinblatt M. and S. Titman, Financial Markets and Corporate Strategy, (2nd Edition) McGraw-Hill, (2001).

### Additional Reading:

The course outline provides papers which are optional but suggested reading for some of the topics.

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

## Course Outline:

| Session | Lecture                                 | Suggested Book Chapters | Classwork  |
|---------|---|-------------------------|--|
| 1       | Intro (1.5h)<br>Valuation (1.5h)        | 1, 2, 3                 | <b>No Class</b>  |
| 2       | Valuation (1.5h)<br>VC Valuation (1.5h) | 9, 10, 11               | 1 (Expected Returns) <sup>S</sup><br>2 (NPV) <sup>S</sup><br>3 (Accounting) <sup>L</sup> |
| 3       | WACC (1h)<br>Leverage (1h)<br>M&M (1h)  | 13                      | 5 (Valuation)<br>6 (Valuation, Excel)  |
| 4       | M&M (3h)                                | 14, 15                  | 7 (WACC, relevering)<br>8 (WACC, Excel) <sup>S</sup><br>9 (WACC, leverage)               |
| 5       | Info. Econ. (1.5h)<br>Corp. Gov (1.5h)  |                         | 10 (M&M, home-made lev)<br>11 (M&M, taxes) <sup>L</sup>                                  |
| 6       | Corp. Gov (2h)<br>Agency (1h)           | 18                      | 13 (M&M, home-made lev)  |
| 7       | Agency (1.5h)<br>Distress (1.5h)        | 16, 17                  | 14 (Legal protection)<br>15 (Free rider problem) <sup>L</sup>                            |
| 8       | <b>Midterm</b>                          |                         | <b>No Class</b>  |
| 9       | Distress (2h)<br>Asym. Info (1h)        | 19                      | 16 (Monitoring) <sup>L</sup><br>17 (Risk shifting)                                       |
| 10      | Asym. Info (2h)<br>Banking (1h)         |                         | 18 (Optimal Compensation) <sup>L</sup><br>19 (Risk shifting, compens.) <sup>L</sup>      |
| 11      | Banking (2h)<br>IPOs (1h)               |                         | 20 (Distress)<br>22 (Signaling) <sup>L</sup>   |
| 12      | SEOs (1h)<br>Options (2h)               | 7, 8                    | 24 (Banking) <sup>L</sup>  |
| 13      | Options (1h)<br>Real Options (2h)       | 12, 22                  | 25 (IPO underpricing) <sup>L</sup><br>26 (Options)                                       |
| 14      | <b>No Lecture</b>                       |                         | 27 (Real Options) <sup>S</sup><br>28 (Real Options)                                      |
| 15      | <b>Final Exam</b>                       |                         |  |

**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](mailto:summer.school@lse.ac.uk)