



北京大學
汇丰商学院

Peking University HSBC Business School

FIN534, ECON582

Theoretical Foundations of Corporate Finance

Module 3, 2015-2016

Course Information

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Classes:

Lectures: Mondays and Thursdays, 10:30 am – 12:20 pm

Venue: PHBS Building, Room 319

1. Course Description

1.1 Context

Course overview:

The goal of this course is to provide students with an understanding of the fundamentals and main ideas behind various corporate finance theories at the Master's level. This course will cover theoretical aspects of capital structure, financing, payout and investment policy choices and derive some practical and policy implications on the real world.

Prerequisites:

None

1.2 Textbooks and Reading Materials

My recommended reading materials are as follows.

1. **Grinblatt & Titman (2001)** is an excellent book, which covers practical aspects of corporate finance and asset pricing and some of the theory that we will need.
2. **Brealey, Myers & Allen (2006 or any newer version)** is a slightly more practical book, with a more intuitive coverage of the material. In this sense, this book is still useful.
3. **Tirole (2006)** covers contract-theoretic material in a clear, succinct and easy-to-follow fashion. Toward the end of the course, I will closely follow this book.
4. I closely follow "**Lecture Notes on Corporate Finance (for Oxford MFE)**" written by Professor Alan Morrison, University of Oxford. You will get a copy of the lecture notes at the beginning of the course.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	In-class discussion
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	In-class discussion
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	In-class discussion
	2.2. Students will be able to apply leadership theories and related skills.	In-class discussion
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	In-class discussion
	3.2. Our students will practice ethics in the duration of the program.	In-class discussion
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	In-class discussion
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	Mid-term and Final Exams
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	Mid-term and Final Exams
	5.3. Our students will demonstrate competency in critical thinking.	Mid-term and Final Exams

2.2 Course specific objectives

Learning Goals	Objectives	Assessment
1. Our graduates will understand various fundamental theories in corporate finance.	1.1. Students are able to understand various tools required to understand corporate finance theories.	Mid-term and Final Exams
	1.2. Students are able to understand chief implications of major theories regarding corporate investment, financing, payout, and capital structure decisions.	Mid-term and Final Exams

2.3 Assessment/Grading Details

Type	Weighting	Date
Class participation and attendance	20%	
Mid-term examination	30%	TBA
Final examination	50%	TBA
Total	100%	

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on

assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics, Teaching and Assessment Schedule

Week	Topics	Reading Materials
1	Introduction to Corporate Finance <ul style="list-style-type: none"> What should companies do? What do investors care about? 	Morrison (M): Chapters 1 & 2 Grinblatt and Titman (GT): Chapters 4 & 5 Brealey, Myers and Allen (BMA): Chapters 7-9 Tirole: Chapter 2
2	Capital Budgeting <ul style="list-style-type: none"> Using the Capital Asset Pricing Model Discounted cash flow valuation Alternative valuation approaches 	M: Chapters 3-5 GT: Chapters 4, 5, 9 & 10 BMA: Chapters 1-9
3	The Modigliani & Miller Propositions <ul style="list-style-type: none"> Modigliani-Miller proposition I Modigliani-Miller proposition II 	M: Chapters 6 GT: Chapters 10, 12 & 14 BMA: Chapters 5 & 17 T: Chapter 2
4	Taxation and WACC <ul style="list-style-type: none"> Tax shields and corporate value Bankruptcy and its costs Trade-off theory of capital structure Tax-adjusted weighted average cost of capital Adjusted present value The Miller equilibrium 	M: Chapters 7 & 8 GT: Chapter 13 BMA: Chapters 18 & 19
5	Company Valuation and Delevering <ul style="list-style-type: none"> Delevering company betas 	M: Chapter 9 & 10 GT: Chapters 11 & 13 BMA: Chapter 19
Mid-term Exam: Topics for Weeks 1-5		
6	Dividends; Credit Rationing <ul style="list-style-type: none"> Dividend Credit rationing: concepts and evidence 	M: Chapters 10 & 11 GT: Chapter 15 BMA: Chapter 16

		T: Chapter 3
7	Adverse Selection in Corporate Finance <ul style="list-style-type: none"> • Informational efficiency and allocative efficiency • Lemons problems and the pecking order theory of capital structure • Adverse selection and IPO underpricing • Optimal contracting under adverse selection: collateral 	M: Chapter 12 & 19 GT: Chapters 16-20 BMA: Chapters 13, 17 & 18 T: Chapter 5
8	Moral Hazard and Corporate Finance <ul style="list-style-type: none"> • Moral hazard and commitment problems • Resolving commitment problems: takeover markets • Moral hazard and leverage • Risk-shifting • Debt overhang • A simple model of managerial compensation • Evidence on managerial compensation 	M: Chapter 13 & 14 GT: Chapters 16-20
9	Optimal Contracting under Moral Hazard <ul style="list-style-type: none"> • Two-state models of pledgeability • Tirole's canonical model of moral hazard in corporate finance • Application of Tirole's canonical model to debt overhang and a CRS project • Moral hazard models of collateral • Empirical evidence about collateral 	M: Chapters 17 & 19 T: Chapter 4
Final Exam: Topics for Weeks 1-9		