

## Corporate Finance

Course title - Intitulé du cours	Corporate Finance
Level / Semester - Niveau /semestre	M1 / S2
School - Composante	Ecole d'Economie de Toulouse
Teacher - Enseignant responsable	Alexander GUEMBEL
Lecture Hours - Volume Horaire CM	30
TA Hours - Volume horaire TD	
TP Hours - Volume horaire TP	0
Course Language - Langue du cours	Anglais
TA and/or TP Language - Langue des TD et/ou TP	Anglais

### **Teaching staff contacts - Coordonnées de l'équipe pédagogique :**

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office MF 312

I do not hold office hours as such, but am in my office most days. The best way to discuss any questions you may have is after class. Otherwise, you can also send me an e-mail and I will either try to answer your question directly, or propose to meet. Before you ask to meet to discuss a question regarding the course material, please make sure you have done the relevant reading. It is also often helpful to discuss the issue with classmates (they may learn something from your question as well) before seeking help from me.

### **Course's Objectives - Objectifs du cours :**

This course aims to familiarize students with the foundations of corporate finance. Corporate finance deals with two broad sets of questions. First, how should a firm evaluate investment opportunities? Second, how should it finance the investments it wishes to undertake? The course will explore these questions with a view to (i) providing a solid basis for students to build on when taking more advanced courses (be it in the "professional" M2 programme in Finance, or the research track), and (ii) to allow students to apply basic finance tools in their future professional work. At the end of this course, students should be able to (a) apply discounted cash flow techniques to evaluate investment opportunities, (b) assess the usefulness of a variety of investment criteria, (c) explain the different sources of financing available to a firm, (d) identify factors that affect the optimal financing mix for a corporation, (e) evaluate critically how financing choices affect a firm's cost of capital.

### **Prerequisites - Pré requis :**

No specific prerequisites

### **Practical information about the sessions - Modalités pratiques de gestion du cours :**

Lecture handouts will be made available via moodle. I strongly recommend that you print them out before coming to class. This will allow you to take notes more effectively and concentrate on following

the class discussion. While much of the class will take the style of a lecture, I will encourage interactions by having open discussions from time to time. I do not allow laptops or tablets during class. The class will start on time and I expect all students to respect a punctual beginning by not showing up late to class.

**Grading system - Modalités d'évaluation :**

The final grade will be based on a 1h30 examination at the end of the course. This is a closed-book exam. Simple pocket calculators are allowed.

**Bibliography/references - Bibliographie/références :**

We will use one main textbook to accompany the course and the chapter references below refer to this textbook:

Berk and DeMarzo, Corporate Finance, 2007 or later edition.

**Session planning - Planification des séances :**

Week 1

The objective of a firm, Fisher separation theorem, the net present value rule

Reading: ch. 1, 3, 5.1, 5.2, 8

Week 2

Useful discounting formulae, application to share valuation, alternative investment criteria

Reading: ch. 4, 6, 9.1, 9.2

Week 3

Financial statements, capital budgeting

Reading: ch. 2, 7

Case study: Ocean Carriers, Harvard Business Publishing (#9-202-027)

Week 4

Valuing risky investments, risk premium, CAPM and the cost of capital

Reading: ch. 10, 11, 12

Week 5

Capital structure, Modigliani-Miller theorem, weighted average cost of capital

Reading: ch. 14

Week 6

Tax shield of debt, tax adjusted WACC, Adjusted present value method

Reading: ch. 15, 18

## Week 7

Costly bankruptcy, trade-off theory of capital structure

Reading: ch. 16.1 – 16.4

## Week 8

Agency problems and capital structure: debt overhang, risk shifting

Reading: ch. 16.5 – 16.7

Further reading: Tirole, The Theory of Corporate Finance, ch. 3.1 – 3.4

## Week 9

Asymmetric information, pecking order

Reading: ch. 16.8

Further reading: Tirole, The Theory of Corporate Finance, ch. 6.1, 6.2

## Week 10

Revision & exam practice