

Syllabus for *Corporate Finance*

M1 Economics (TSE)

Semester 2, 2024 – 25

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Objectives of the course

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 M2 programme in Finance, or the finance field in the M2 ETE), 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.

Practical information about the session

Lecture handouts will be made available via moodle. I recommend that you print them out before attending the 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. The class will start on time and I expect all students to respect a punctual beginning by not showing up late to class.

I will also make exercises available via moodle and we will discuss solutions in class. Although the exercises are not graded, they are an integral part of the course and I expect you to work on them in your own time and before we discuss solutions in class.

Course evaluation

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.

Text book:

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

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

Discounted cash flows and practical valuation problems

Reading: ch. 2, 4, 6, 7

Week 3

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

Reading: ch. 10, 11, 12

Week 4

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

Reading: ch. 14

Week 5

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

Reading: ch. 15, 16.1 – 16.4, 18.2, 18.3, 18.6

Week 6

Debt overhang

Reading: ch. 16.5 – 16.7

Week 7

Raising capital when there are informational frictions

Reading: ch. 16.8

Week 8

Funding choices when there is moral hazard

Reading: Tirole, *The Theory of Corporate Finance*, ch. 3.1 – 3.4

Week 9

Financial intermediation

Reading: chapter 2 of Freixas and Rochet, *Microeconomics of Banking*, MIT Press (2nd or 3rd edition).

Week 10

Revision & exam practice