

CITY UNIVERSITY

BSc ECONOMICS and BSc ECONOMICS AND ACCOUNTING EC3010 Corporate Finance

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Office hours: Tu 2-3pm
Lectures: Fr 3-5pm
Classes: Fr 5-6pm

Overview

We study how companies invest and how they raise funds in the financial markets to pay for these investments. We cover the principles of financial management and techniques to evaluate different investment projects and alternative sources of funds. We also study the major sources of corporate financing, mergers, dividend policy, etc.

Course Delivery

The course consists in two one-hour lectures and a one-hour class each week during ten weeks. Below you will find a preliminary course outline together with the main reading. Lecture slides and detailed reading will be uploaded to WebCT just before the lectures. Classes will be predominantly based upon problem sets, usually posted in WebCT one week before.

Assessment:

Assessment for the whole module will be on the basis of a 2hr written examination plus a midterm test on the class hour on Friday, November 2nd. The final exam and midterm test will contribute 80% and 20%, respectively. Further details and sample questions will be provided beforehand.

Reading

The primary texts for the course are:

Grinblatt, M and S. Titman “Financial Markets and Corporate Strategy” (McGraw-Hill).

Berk, J. and P. DeMarzo, “Corporate Finance” (Pearson).

These texts will provide most of the required reading. Other texts that you might wish to refer are listed below. None of these texts covers all the lecture topics but they might have more detailed explanations in particular topics than the text above.

Bodie, Z., A. Kane and A.J.Marcus (2005). Investments. McGraw Hill 6th edition.

Brealey, R. and S.C.Myers (2003). Principles of Corporate Finance. McGraw Hill 7th edition.

Copeland, T.E., Weston, J.F. and K. Shastri (2005). Financial Theory and Corporate Policy. Pearson Education, International Edition, 4th edn.

A detailed list of required and optional reading including journal articles will be provided as the course progresses. You should also be reading the Financial Times or the Wall Street Journal on a regular basis and the Economist once a week. During the course, we will be referring to press coverage, and corporate and market news and events, if these are related to, or help to illustrate, topics we are covering in the course. Some paperbacks for “bedtime reading” include *A Random Walk down Wall Street* and *Barbarians at the Gate*.

(Tentative) Course Outline

1. Introduction: the role of the financial manager
2. Basic tools for portfolio analysis
3. Mean variance analysis
4. Capital Asset Pricing Model (CAPM)
5. Arbitrage Pricing Theory (APT)
6. Valuing risk-free and risky real projects
7. Firm’s capital structure: debt, equity and the Modigliani and Miller theorem.
8. Taxes, bankruptcy costs and the optimal capital structure
9. Dividend policy
10. Problems of asymmetric information: ownership and control
11. Signaling theory: capital structure and dividend policy
12. Mergers and acquisitions
13. Valuing and financing a takeover
14. Further topics: capital restructuring