

# CITY UNIVERSITY

## **BSc ECONOMICS and BSc ECONOMICS AND ACCOUNTING EC3010 Corporate Finance**

### Detailed Course Outline and Reading List

The detailed course outline below will refer to the following books:

[GT] M. Grinblatt and S. Titman, Financial Markets and Corporate Strategy, Irwin McGraw-Hill.

[BKM] Z. Bodie, A. Kane, and A.J. Marcus, Investments, Irwin McGraw-Hill (5th or 6<sup>th</sup> edition)

[BM] Brealey, R. and S.C. Myers (2003). Principles of Corporate Finance. McGraw Hill 7<sup>th</sup> edition.

[CWS] T.E. Copeland, J.F. Weston, and K. Shastri, Financial Theory and Corporate Policy, Addison-Wesley.

#### **Lecture 1: Introduction: The Role of the Financial Manager**

This lecture introduces the main topics to be covered in the course and provide an introductory overview of the role of the financial manager in a corporation.

Main reading: [BM] Chapter 1

#### **Lecture 2: Basic Tools for Portfolio Analysis**

Introduction to portfolio analysis and review of the concepts of return, mean and variance. Diversification.

Main reading: [GT] Chapter 4.1 until 4.6

Supplementary reading: [BKM] Chapters 6 and 7, [BM] Chapter 7

#### **Lecture 3: Mean Variance Analysis**

The trade-off between risk and return: intuitively and algebraically. The efficient frontier of risky assets and its 'key' portfolios such as the minimum-variance portfolio and the tangency portfolio in the mean/standard deviation diagram.

Main reading: [GT] Chapters 4.7, 5.2, 5.3, 5.4 (not necessary to derive the tangent portfolio manually), 5.7

Supplementary reading: [BKM] Chapter 8, [BM] Chapters 7 and 8

The foundations of modern portfolio theory can be found in:

H.M. Markowitz (1952), Portfolio Selection, Journal of Finance 7, 77-91.

H.M. Markowitz (1959), Portfolio Selection: Efficient Diversification of Investments, New York: John Wiley.

## **Lecture 4: CAPM**

The Capital Asset Pricing Model: assumptions and conclusions. Implications for investment.

Main reading: [GT] Chapters 5.8, 5.9, interesting optional reading: 5.10

Supplementary reading: [BKM] Chapter 9, [BM] Chapter 13

W. F. Sharpe (1964), Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk, *Journal of Finance* 19, 425-442.

F. Black (1972), Capital Market Equilibrium with Restricted Borrowing, *Journal of Business*, 45, 444-455.

## **Lecture 5: Factor Models and APT**

Distinction between market-related and non-market-related, as well common factor and firm-specific components in decomposing the variance of an asset's return. APT exploiting the postulate of no-arbitrage to reach its conclusions.

Main reading: [GT] Chapters 6.1, 6.2, 6.3, part of 6.10 (only formula, proof not necessary)

Supplementary reading: [BKM] Chapters 10-11, [BM] Chapter 8

The Economist, "What price risk?", *Economics Focus*, February 6<sup>th</sup>, 1993, Vol. 326. Issue 7797, p. 81W.

R. Jagannathan and E. McGrattan (1995) The CAPM Debate, *Federal Reserve Bank of Minneapolis Quarterly Review* 19, 217.

E. Fama and K. French (1996), The CAPM is Wanted, Dead or Alive, *Journal of Finance*, 51, 1947-1958.

## **Lecture 6: Valuing Real Assets**

Main reading: [GT] Chapters 10.1, 10.2, 10.4, 10.5, 10.6, 11.0 (only ideas from introduction)

Supplementary reading: [BM] Chapter 5

## **Lecture 7: Firm's Capital Structure: Debt, Equity and the Modigliani and Miller Theorem**

Main reading: [GT] Chapters 14.1, 14.2, 14.3

Supplementary reading: [BM] Chapter 17 and 18

## **Lecture 8: Taxes and Bankruptcy and the Modigliani and Miller Theorem**

Main reading: [GT] Chapters 16.1, 16.2, 16.3

Supplementary reading: [BM] Chapter 18

## **Lecture 9: Dividend Policy**

Main reading: [GT] Chapter 15 (15.1,15.2,15.3 and 15.5)

Supplementary reading: [BM] Chapter 16

## **Lecture 10: Ownership and Control**

Main reading: [GT] Chapter 18

Supplementary reading: [BM] Chapter 12

## **Lecture 11: Signaling Theory: Capital Structure and Dividend Policy**

Main reading: [GT] Chapter 19

Supplementary reading: [BM] Chapter 12

## **Lecture 12: Mergers and Acquisitions**

Main reading: [GT] Chapter 20 (the material of 20.10 and 20.11 will only be covered if there is enough time)

Supplementary reading: [BM] Chapter 32

Andrade, Mitchell and Stafford (2001), "New Evidence and Perspectives on Mergers", Journal of Economic Perspectives.

Andrade and Stafford (2004), "Investigating the Economic Role of Mergers", Journal of Corporate Finance.

Gugler, Mueller and Yurtoglu (2004), "The Determinants of Merger Waves", WP University Vienna.

Weston, Kwang and Hoag (1990), "Mergers, Restructuring, and Corporate Control", Prentice Hall.