

COURSE CONTENT

Course Coordinator	Wu Guiying Laura
Course Code	HE3614 / HE3013
Course Title	Economics of Corporate Finance
Pre-requisites	HE2001 Microeconomics II, HE2002 Macroeconomics II, HE2003 Econometrics I/ HE2004 Introductory Econometrics/ HE2005 Principles of Econometrics
No of AUs	3
Contact Hours	39 hours (2 hours Lecture & 1 hour Tutorial per week)

Course Aims

If you are curious on why companies and the financial markets behave the way they do from the orientation of economics, this course is for you to learn and to thrive. It aims to provide you a solid economic foundation to the theory and practice of corporate finance in a modern world.

You will enjoy an intellectual stimulation and enhance your cognitive ability by commanding the core theory of corporate finance at a rigorous level. You may apply what you have learned to various interesting corporate world problems and develop potential research topics for your FYP and for further study. You could become more prepared for the competitive job market with the financial knowledge and background offered in this course. You could also generate insights on the basic trade-offs between today and tomorrow and between risk and return and apply them to your personal investment and life-time decisions.

Intended Learning Outcomes (ILO)

By the end of this course, you (as a student) would be able to:

1. Explain the stylized facts of the corporate finance in a modern world
2. Describe the central financial decisions a financial manager makes
3. Apply the two fundamental financial principles for valuation
4. Operate MM Proposition I and II in a coherent way
5. Propose your own investment portfolio
6. Collaborate with other team members to produce effective presentations

Course Content

This course studies the economic mechanisms on how a financial manager makes investment and financing decisions in the modern corporation and the resulting implications to resource allocation.

The key topics include:

1. How to value assets, in particular bonds and common stocks
2. What is the link between risk and value
3. What are the patterns of corporate financing
4. How does a firm decide on dividend payments
5. Does capital structure matter
6. How much a firm should borrow

7. How can financial ratios help to assess a firm's performance
8. Why merges can be viewed as part of a broader market for corporate control.

Assessment (includes both continuous and summative assessment)

Continuous Assessment	:	50%
Final Examination	:	<u>50%</u>
Total	:	<u>100%</u>

Reading and References

The main reference is the most widely used classical corporate finance textbook: Richard A. Brealey, Stewart C. Myers, and Franklin Allen, 2010, *Principles of Corporate Finance*, 10th edition, McGraw-Hill. NTU Library Call Number: HG4026.B828. BMA hereafter.

The other two useful books are:

Steve Lumbly and Chris Jones, 2011, *Corporate Finance*, 8th edition, South-Western. LJ hereafter.

Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, 2010, *Corporate finance*, 9th edition, McGraw-Hill. NTU Library Call Number: HG4026.R826. RWJ hereafter.

BMA has an excellent balance between theory and practice. If you have a taste of theory, you will find LJ more concise and quantitative, while if you come with a more practical mind, you will find RWJ more intuitive and qualitative.

If you have a particular interest in the agency theory, capital structure and M&A, you may find Jean Tirole: *The Theory of Corporate Finance* and Oliver Hart: *Firms, Contracts, and Financial Structure* most useful.

Besides textbooks, [Bloomberg](#) and [Yahoo Finance](#) are two useful sources for you to find the real time market data, news and analyses on the ever-changing corporate world. [The Wharton Research Data Services](#) provide comprehensive historical and updated data on fundamentals, security prices and market indexes together with many useful tools.

Course Instructors

Instructor	Office Location	Email
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Planned Weekly Schedule

Week	Topic	Course LO	Readings/ Activities
Week 1	1. Introduction 1.1. Course Information 1.2. An overview of Financial Statements 1.3. What is Corporate Finance? 1.4. The Hirshleifer Separation Theorem	LO1 LO2	Read BMA chapter 1 and 28; No tutorial

Week 2	2. How to Calculate Present Value? 2.1. Future Values and Present Values 2.2. Perpetuities and Annuities 2.3. Growing Perpetuities and Annuities	LO3 LO6	Read BMA chapter 2; Self-introduction and grouping
Week 3	3. Valuing Bonds 3.1. Using PV Formula to Value Bonds 3.2. Duration and Volatility 3.3 Term Structure of Interest Rates	LO3 LO6	Read BMA chapter 3; Group presentation for Lecture 1 and 2
Week 4	4. The Value of Common Stocks 4.1. How Common Stocks are Valued 4.2. Estimating the Cost of Equity capital	LO3 LO6	Read BMA chapter 4; Group presentation for Lecture 3
Week 5	5. The link between Value and Risk 5.1. Risk and Return 5.2. Portfolio Theory and the CAPM 5.3. Risk and Opportunity Cost of Capital	LO3 LO6	Read BMA chapter 7, 8 and 9; Group presentation for Lecture 4
Week 6	6. An Overview of Corporate Finance 6.1. Patterns of Corporate Finance 6.2. Common Stocks and Debt 6.3. Financial markets and Institutions	LO1 LO2 LO6	Read BMA chapter 14; Group presentation for Lecture 5
Week 7	7. How Corporations Issue Securities? 7.1 Venture Capital 7.2 The IPO 7.3 Securities Sales by Public Companies	LO1 LO2 LO6	Read BMA chapter 15; Mid-term in class quiz
Week 8	8. Should a Corporation Pay Out Dividends? 8.1 How Dividends are Paid? 8.2 The Dividends Controversy	LO1 LO2 LO6	Read BMA chapter 16; Group presentation for Lecture 6 and 7
Week 9	9. Does Debt Policy Matter? 9.1. MM Proposition I 9.2. MM Proposition II	LO4 LO6	Read BMA chapter 17; Group presentation for Lecture 8
Week 10	10. How Much Should a Corporation Borrow? 10.1. Corporate and Personal Taxes 10.2. The Trade-off Theory 10.3. The Pecking Order Theory	LO2 LO4 LO6	Read BMA chapter 18; Group presentation for Lecture 9
Week 11	11. Financial Analysis 11.1 Financial Statements 11.2 Various Measures 11.3 Interpreting Financial Ratios	LO1 LO2 LO6	Read BMA chapter 28; Group presentation for Lecture 10
Week 12	12. Merges, Corporate Control & Governance 12.1. Merges 12.2. Corporate Restructuring 12.3. Governance & Control Around World	LO1 LO2 LO6	Read BMA chapter 3, 32 and 33; Group presentation for Lecture 11 and 12
Week 13	13. Conclusion and Revision 13.1 Revision of the Course 13.2 Final Exam Information	LO5 LO6	In class Q&A; Evaluate mock investment portfolio