



北京大學
汇丰商学院

Peking University HSBC Business School

FIN534, ECON582

Theoretical Foundations of Corporate Finance

Module 1, 2017-2018

Course Information

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Classes:

Lectures: Tuesdays and Fridays, 8:30 am – 10:20 pm

Venue: PHBS Building, Room 319

1. Course Description

1.1 Context

Course overview:

The goal of this course is to provide students with an understanding of the fundamentals and main ideas behind various corporate finance theories at the Master's level. This course will cover theoretical aspects of capital structure, financing, payout and investment policy choices and try to derive some empirical and practical implications.

Prerequisites:

There are no prerequisites. However, strong backgrounds in Mathematics or Microeconomics will be helpful.

1.2 Textbooks and Reading Materials

My recommended reading materials are as follows.

1. **Tirole (2006)** covers contract-theoretic material in a clear, succinct and easy-to-follow fashion. Throughout the course, I will closely follow this book.
2. **Grinblatt & Titman (2001)** is an excellent book, which covers practical aspects of corporate finance and asset pricing and some of the theory that we will need.
3. **Brealey, Myers & Allen (2006 or any newer version)** is a slightly more practical book, with a more intuitive coverage of the material. In this sense, this book is still useful.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	In-class discussion
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	In-class discussion
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	In-class discussion
	2.2. Students will be able to apply leadership theories and related skills.	In-class discussion
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	In-class discussion
	3.2. Our students will practice ethics in the duration of the program.	In-class discussion
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	In-class discussion
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	Mid-term and Final Exams
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	Mid-term and Final Exams
	5.3. Our students will demonstrate competency in critical thinking.	Mid-term and Final Exams

2.2 Course specific objectives

Learning Goals	Objectives	Assessment
1. Our graduates will understand various fundamental theories in corporate finance.	1.1. Students are able to understand various tools required to understand corporate finance theories.	Mid-term and Final Exams
	1.2. Students are able to understand chief implications of major theories regarding corporate investment, financing, payout, and capital structure decisions.	Mid-term and Final Exams

2.3 Assessment/Grading Details

Type	Weighting	Date
Class participation and attendance	20%	At least 4 random checks
Group presentation	20%	Each group once
Mid-term examination	30%	T.B.A.
Final examination	30%	Tuesday 14 November
Total	100%	

NOTE: There will be at least 4 random attendance checks and **each absence** will end up with a mark reduction of **5 points**. Send me an email at least one day before if you have a special reason for absence, but no more than once.

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honours, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics, Teaching and Assessment Schedule

No.	Topics	Reading Materials
1	Corporate Financing: Some Stylized Facts <ul style="list-style-type: none"> • Modigliani-Miller and the Financial Structure Puzzle • Debt Instruments • Equity Instruments • Financing Patterns 	Tirole: Chapter 2
2	Outside Financing Capacity <ul style="list-style-type: none"> • The Role of Net Worth: A Simple Model of Credit Rationing • Debt Overhang • Borrowing Capacity • Related Models of Credit Rationing: Inside Equity and Outside Debt • Verifiable Income • Semiverifiable Income • Nonverifiable Income 	Tirole: Chapter 3
3	Some Determinants of Borrowing Capacity <ul style="list-style-type: none"> • Introduction: The Quest for Pledgeable Income • Boosting Ability to Borrow: Diversification and Its Limits • Boosting Ability to Borrow: The Costs and Benefits of Collateralization • The Liquidity-Accountability Trade-off • Restraining the Ability to Borrow: Inalienability of Human Capital 	Tirole: Chapter 4
4	Liquidity and Risk Management, Free Cash Flow, and Long-term Finance <ul style="list-style-type: none"> • The Maturity of Liabilities • The Liquidity-Scale Trade-off • Corporate Risk Management • Endogenous Liquidity Needs, the Sensitivity of Investment to Cash Flow, and the Soft Budget Constraint 	Tirole: Chapter 5

	<ul style="list-style-type: none"> • Free Cash Flow 	
5	Corporate Financing under Asymmetric Information <ul style="list-style-type: none"> • Implications of the Lemons Problem and of Market Breakdown • Dissipative Signals • Contract Design by an Informed Party: An Introduction • Signalling through Costly Collateral • Short Maturity as a Signalling Device • Formal Analysis of the Underpricing Problem 	Tirole: Chapter 6
6	Additional Topics in Corporate Finance Theory	Tirole: Related chapters