

COURSE PLAN

COURSE TITLE	PRINCIPLES OF CORPORATE FINANCE
AIMS OF THE COURSE	<p>This course provides a theoretical framework used to address issues in project appraisal and financing, payout policy, capital structure, mergers and acquisitions, equity offerings, and risk management. It provides students with the tools required for further studies in financial intermediation and investments.</p>
LEARNING OUTCOMES	<p>At the end of the course and having completed the essential reading and activities students should be able to:</p> <ul style="list-style-type: none"> • explain how to value projects, and use key capital budgeting techniques (for example: NPV and IRR) • understand and apply real option theory as an advanced technique of capital budgeting • understand and explain the relevance, facts and role of the pay-out policy, and calculate how pay outs affect the valuation of securities • understand the trade-off firms face between tax advantages of debt and various costs of debt • calculate and apply different costs of capital in valuation • understand and explain different capital structure theories, including information asymmetry and agency conflict • understand how companies issue new shares, and calculate related price impact in security offerings • discuss why merger and acquisition activities exist, and calculate the related gains and losses • understand risk, hedging, and numerous financial securities as tools to manage risk.
LIST OF TOPICS	<p>Project evaluation: the NPV rule and IRR rules of investment appraisal; comparison of NPV and IRR; ‘wrong’ investment appraisal rules: payback and accounting rate of return.</p> <p>Real options: understand what real options are and why they are important in project valuation; understand and calculate the source of option value; three types of real options: options to abandon/expand/wait.</p> <p>Dividend theory: the Modigliani–Miller and dividend irrelevancy; Lintner’s fact about dividend policy; dividends, taxes and clienteles; asymmetric information and signalling through dividend policy.</p> <p>Capital structure: the Modigliani–Miller theorem: capital structure irrelevancy; taxation, bankruptcy costs and capital structure; weighted average cost of capital; Modigliani-Miller 2nd proposition; the Miller equilibrium; asymmetric information: 1) the under-investment problem, asymmetric information; 2) the risk-shifting problem, asymmetric</p>

	<p>information; 3) free cash-flow arguments; 4) the pecking order theory; 5) debt overhang.</p> <p>Corporate governance: separation of ownership and control; management incentives; management shareholdings and firm value; corporate governance.</p> <p>Mergers and acquisitions: motivations for merger activity; calculating the gains and losses from merger/takeover; the free-rider problem and takeover activity.</p> <p>Equity offerings: understand venture capital and equity issuance in the public market; perform valuation with multiple financing rounds; initial public offerings and underpricing; winners' curse problem.</p> <p>Risk management: understand why and how companies manage risk; cost of hedging; covered and uncovered interest rate parity.</p>
MANDATORY READINGS	<p>Brealey, Richard A., Stewart C. Myers, and Franklin Allen. Principles of Corporate Finance. (McGrawHill Education, 2019) thirteenth edition [ISBN 978-1260565553]</p>
SEMESTRAL ASSESSMENT	<p><i>3 tests and activities during the classes.</i></p> <p><i>Test 1: Chapters 1&2 – 20 marks;</i></p> <p><i>Test 2: Chapters 3,4,5&6 – 40 marks;</i></p> <p><i>Test 3: Chapters 7, 8 & 9 – 30 marks;</i></p> <p><i>Activities during the classes: discussions and problem solvings – 10 marks.</i></p>
LIST OF LECTURERS	<p><i>Dragana Draganac, PhD, Assistant Professor, course coordinator</i></p> <p><i>Miroslav Todorović, PhD, Full Professor</i></p> <p><i>Irena Janković, PhD, Associate Professor</i></p> <p><i>Lazar Đurović, MsC, Teaching Assistant</i></p>