Corporate Finance
MSc in Finance and Banking
Athens University of Economics & Business
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Aims and objectives:

This course examines the valuation of investment projects and capital budgeting decisions by corporates, how they access capital markets and factors that affect capital structure decisions, namely the mix of various forms of financing. It also covers means of raising debt and equity financing in capital markets, with a special focus on early-stage funding and crowdfunding.

As a benchmark case, we consider a competitive economy without frictions, where capital structure is irrelevant for the value of the firm. This, so called Modigliani-Miller (MM) irrelevance proposition, is discussed using basic concepts of real options where students have the opportunity to gain insights into the valuation of risky-debt and equity. The MM irrelevance proposition is used to guide students' thinking about the impact of financial transactions, such as share buybacks, on share valuations and the weighted average cost of capital (WACC). Real-world examples are considered where capital markets are subject to distortions and frictions, such as financial distress costs, principle-agent problems and asymmetric information. The teaching mode is to identify first-order factors that affect capital structure decisions by corporates and think towards an optimal capital structure when such factors interact.

In particular, the Static Trade-Off theory (STO) considers the balance between tax shields and financial distress costs in determining a firm's debt policy. As part of STO, students are introduced to problems of debt-overhang and underinvestment by firms due to legacy debts and learn how managers could deal with these problems, with a special emphasis on rights issues and debt restructurings. In the presence of managerial moral hazard, the Free-Cash-Flow theory (FCF) suggests that debt could act as disciplinary devise, facilitating better monitoring of managerial decisions. According to the Pecking-Order-Theory, information asymmetries lead to mispricing of corporate securities, thus corporate decisions on which type of securities to issue depend on information sensitivities. Aspects of human capital and innovation are considered in relation to big tech companies and their decisions to raise external funds. The course also covers issues on early-stage funding and crowdfunding.

Overall, students are equipped with the analytical apparatus to identify first-order issues relevant to corporate financing decisions and learn how to combine and apply them in practice.

<u>**Course outline and reading list**</u>

1. **Capital Budgeting**
   (Free Cash Flow Analysis, risk-return data sources, WACC, Adjusted Present Value – APV, working capital)

2. **Patterns of Long-Term Corporate Financing**
   (Capital structure, leverage, Modigliani-Miller Theorem)

3. **Financial frictions and capital structure theory in practice**
   (Bankruptcy costs, taxes, corporate governance agency problems, moral hazard, asymmetric information, pecking order theory)

4. **Equity capital markets**
   (IPOs, rights issue)

5. **Debt capital markets**
   (Syndicated loans, MTN, commercial paper, securitization)

6. **Financial distress**
   (Debt overhang, solvency and liquidity problems, debt restructuring, free riding, collective action clauses)

7. **Corporate payout policy**
   (Dividends, share repurchase, effect on stock valuation)

8. **Early stage funding**
   (Seed capital, venture capital, business angels, crowdfunding)

9. **Funding conditions in the Euro interbank market and SME financing**
   (Interbank market, Eurosystem, Open Market Operations, Long Term Refinancing Operations, Quantitative Easing, Credit Easing, SME financing)

Text Books:

Jean Tirole. “The Theory of Corporate Finance”, Princeton University Press (ISBN 0-691-12556-2)

Jonathan Berk, and Peter DeMarzo. “Corporate Finance”, Pearson Series in Finance. (ISBN 13-978-0132993869)

Richard A. Brealey, Stewart C. Myers, and Franklin Allen. "Principles of Corporate Finance", McGraw-Hill, New York, NY. (ISBN 0-07-111795-4).

Pagratis S., course packet in corporate finance (unpublished).