1 GENERAL INFORMATION

The main purpose of this course is to deepen the knowledge and the intuition, obtained from the introductory course in “Financial Policy”. We start studying the firms’ financing decisions in a perfect capital market and then sequentially introduce main market imperfections affecting firms’ decisions (for more details see course outline below). While we will consider different economic models and theories, developed by renowned scholars, the main focus of the course will be on the core ideas behind these theories, so that by the end of the course students are expected to be equipped with core financial concepts and tools that are necessary to judge firms’ financial policy decisions. In some degree emphasis will be placed on the practical application of the different theories. In particular, we solve some simple problems during our regular classes and organize problem-solving sessions, where students will be required to present their solutions. In addition, students will be assigned small case studies, which they should prepare in a written form as well as present it in class. The general structure of the course looks as follows: regular sessions, problem-solving sessions, case study presentation session.

2 STUDENT ASSESSMENT

1. Case Study—Capital Structure and Payout Policy Analysis (20%): Every student should select a company listed in one of the main stock exchanges and try to analyze its capital structure and payout decisions based on the available information. The work should be submitted in a written form. In addition, students are required to prepare a presentation. Individual students will be called randomly to present their case studies (for detailed requirements for reporting and presentation, see special instructions). Please be advised that no company can be covered by more than one student. Companies are allocated to students at a first come first serve basis. Students can reserve companies by writing an email to me.

2. Solving and Presenting Exercises (25%): There is going to be sets of problems that will be assigned to students. Each student is expected to solve all the problems. Problem-solving sessions will be held separately. Students should inform me, before class via an email, about the exercises they have prepared for the following session. During class I randomly call students to present and explain their solutions.

3. Participation (5%): Students are highly encouraged to participate actively in class discussions which will be honored up to 5%.

4. Final Exam (50%): Final exam will cover all the material done during our classes. The exam will take 1,5 hours and will be closed book.
3 PRELIMINARY COURSE OUTLINE

   i. Capital Structure in a Perfect Capital Market
   ii. Capital Structure and Taxes
      a. Corporate Income Tax
      b. Personal Income Taxes
   iii. Financial Distress Costs
   iv. Agency Problem - Costs and Benefits of Leverage
      a. Asset Substitution Problem
      b. Debt Overhang Problem
      c. Concentration of Ownership
      d. Reduction of Wasteful Investments and Free Cash Flow Hypothesis
      e. Leverage and Commitment
   v. Capital Structure and Informational Asymmetry
      a. Informational Asymmetry in Economics - Adverse Selection Problem
      b. Application with Respect to Capital Structure - Pecking Order Hypothesis
      c. Signaling Theory of Debt
   vi. Market Timing Hypothesis
   vii. Capital Structure and Dynamic Considerations

   i. Dividends and Share Repurchase in a Perfect Capital Market
   ii. Payout Policy and Taxes
   iii. Payout Versus Retention of Cash in Perfect Capital Market
   iv. Dividend Smoothing and Signaling Hypothesis

3. Stock dividends, Splits and Spin-offs

4 PRELIMINARY COURSE SCHEDULE

- 25/11/2008 Tuesday 18:00-20:00 HS12 - Regular Session
- 27/11/2008 Thursday 18:00-20:00 HS7 - Regular Session
- 01/12/2008 Monday - Submission of the List of Solved Problems
- 02/12/2008 Tuesday 18:00-20:00 HS12 - Problem Solving Session
- 04/12/2008 Thursday 18:00-20:00 HS7 - Problem Solving Session
- 11/12/2008 Thursday 18:00-20:00 HS7 - Regular Session
- 17/12/2008 Wednesday - Submission of the List of Solved Problems
- 18/12/2008 Thursday 16:00-18:00 SR2 - Problem Solving Session
- 08/01/2009 Thursday 18:00-20:00 HS7 - Regular Session
- 15/01/2009 Thursday 18:00-20:00 HS7 - Regular Session
- 21/01/2009 Wednesday - Submission of the List of Solved Problems
- 22/01/2009 Thursday 18:00-20:00 HS7 - Problem Solving Session
- 28/01/2009 Wednesday - Electronic (via email) Submission of Case-Study Report and Presentation
- 29/01/2009 Thursday 18:00-20:00 HS7 - Case Study Presentation Session
- 05/02/2009 Thursday 16:00-17:30 HS7 - Final Exam
5 RECOMMENDED READING


[21] N. Majluf S. Myers. Corporate financing and investment decisions when firms have information that investors do not have. 1983.