

Lancaster University  
Department of Accounting and Finance

AcF302: Corporate Finance

Lent term 2023-2024

## 1. Module Objectives

This module equips students with the knowledge to apply the techniques that have been developed in corporate finance to real world situations. It builds on and extends the concepts covered in the introductory financial management modules (AcF100 and AcF214) and introduces advanced topics in corporate finance. The major topics covered include capital budgeting, capital structure, company valuation, equity and debt issuance, real options, mergers and acquisitions, and corporate governance. This 15-credit module is optional for students majoring in Accounting and Finance and for those on other degrees, with AcF214 being the prerequisite.

The core objectives of the module are:

- To deepen the understanding gained in AcF214 of traditional corporate finance paradigms.
- To provide an insight into more applied topics in corporate finance, such as merger and acquisitions, leasing, venture capital, IPOs, and corporate governance.
- To widen the analysis of capital budgeting and valuation by examining the implications of leverage, taxes, bankruptcy costs, and real options.
- To show how real option pricing models can be applied to a number of corporate valuation problems.
- To address fundamental aspects of the agency problem and the functioning of internal and external corporate governance.

## 2. Learning Outcomes

By the end of the module, students should:

- be able to value new investment projects under leverage,
- be able to identify option features in corporate decisions and value these options.
- have an understanding of the various sources of financing available for private and public firms,

- be familiar with the conflicting objectives affecting capital structure decisions,
- be familiar with different types of corporate governance mechanisms and takeover processes.

### 3. Reading and E-learning Resources

**Main textbook:** Jonathan Berk and Peter DeMarzo, *Corporate Finance* (Global Edition), 4<sup>th</sup> Edition, Pearson Education, 2016, ISBN: 9781292160160.

Students are strongly advised to purchase a copy of the main textbook if they do not already have access to it from prerequisite modules. Copies of the book are also available at the library and online through the following [link](#).

You may also wish to consult relevant chapters from the following books to have a broader understanding of the topics covered:

Paul Asquith and Lawrence A. Weiss, *Lessons in Corporate Finance: A Case Studies Approach to Financial Tools, Financial Policies, and Valuation*, 2<sup>nd</sup> edition, John Wiley & Sons, 2019, ISBN: 9781119537892.

David Hillier, Stephen Ross, Randolph Westerfield, Jeffrey Jaffe and Bradford Jordan, *Corporate Finance* (4<sup>th</sup> European Edition), McGraw-Hill, 2020, ISBN: 9781526848086.

Aswath Damodaran, *Applied Corporate Finance*, 4<sup>th</sup> Edition, John Wiley & Sons, 2015, ISBN: 9781118808931.

**Moodle:** Module information, pre-recorded lecture videos, lecture slides, and workshop questions and solutions will be made available on the Moodle page for the module, which is accessible by students registered for AcF302. You are expected to access that page regularly to download module material and check for announcements.

### 4. Module Administration

The module directors are Dr Mohamed Ghaly (Weeks 11-13) and Dr Patricia Boyallian (Weeks 14-20). Their contact details are as follows:

Dr Mohamed Ghaly:

- Office: Charles Carter Building, Office C31.
- E-mail: [m.ghaly@lancaster.ac.uk](mailto:m.ghaly@lancaster.ac.uk).
- Office hours: Tuesday & Friday 14:00-15:00 (in-person or on Teams). Please send me an email beforehand to book a slot.

Dr Patricia Boyallian:

- Office: Charles Carter Building, Office C42.
- E-mail: [p.boyallian@lancaster.ac.uk](mailto:p.boyallian@lancaster.ac.uk).
- Office hours: Wednesday 14:00-15:00. I highly encourage students to contact me anytime of the week via Teams or by email with a brief summary of their query.

Each week students will work through a set of activities. Activities include watching lecture videos, reading book chapters and journal articles, preparing answers for workshop questions, and attending in-person workshops.

Teaching on the module follows a flipped classroom design and takes the following form:

- Weekly pre-recorded lecture videos.
- Weekly in-person workshops (on campus, compulsory attendance).

In addition, in Weeks 14, 16, 18 and 19, there will be an in-person drop-in session (attendance is optional). Students are encouraged to email any questions they want to be covered in the session beforehand. The purpose of the drop-in session is to go over any questions students have, so the session will only be useful if students send questions beforehand or ask questions during the session.

**Lectures:** The lecture sessions will provide formal teaching of the covered topics and are a compulsory element of learning on this module. These will take the form of pre-recorded video sessions which will be uploaded to Moodle at the start of each week. You will be expected to supplement the lecture sessions with your own reading from the recommended textbook (Berk and DeMarzo). If you face difficulty in understanding any of the lecture material in the videos you should book a meeting with the lecturers during their office hours. The slides from the lectures will be provided on a weekly basis on Moodle at the same time as the relevant video, although these should not be used as a substitute for watching the video sessions.

**Workshops:** You are required to attend a weekly 2-hour workshop. Workshops take place in Weeks 12-20 (i.e., there is no workshop in the first week of the module). Workshop questions will be uploaded on Moodle in advance of the respective workshops. The questions will cover the content of the week's lecture and should provide a good practice for the final exam. You should go through the questions and attempt to answer them in advance of the workshop. Students are required to attend the workshops in-person at the time and location indicated on their timetable.

It is your responsibility to ensure you register your attendance in compulsory sessions on this module by checking into the i-Lancaster system during live sessions. Please ask if you are unsure how to register your attendance in a session.

Your total study time for this module is expected to be at least 150 hours.

## 5. Module Assessment

The module is assessed as follows:

- Exam in Summer Term (May/June 2024): 75% of the overall module mark.
- End-of-term test in the last week of the term (Week 20): 25% of the overall module mark.

The end-of-term test will take place in-person in week 20. Details on the format and content of the test will be provided closer to the date.

Note: The Department reserves the right to adjust coursework marks to ensure that the marks have an appropriate distribution.

Please note that there is no opportunity for re-assessment for visiting students failing to achieve the necessary pass mark for their home University.

## 6. Lecture Outline

### **Weeks 11 and 12: Capital budgeting and valuation with leverage**

Required reading: Berk and DeMarzo - Chapter 18.

Background reading (from prerequisite modules): Berk and DeMarzo - Chapters 3 (section 3.3); 4 (section 4.9); 5 (section 5.5); 7 (sections 7.1, 7.5); 8 (sections 8.1, 8.2, 8.3); 12 (sections 12.5, 12.6); 14 (sections 14.1, 14.3); 15 (sections 15.1, 15.2, 15.4); 16 (section 16.9).

Additional readings:

T. Luehrman, "Using APV: A Better Tool for Valuing Operations," *Harvard Business Review* 75 (1997): 145–154.

I. Inselbag and H. Kaufold, "Two DCF Approaches in Valuing Companies Under Alternative Financing Strategies (and How to Choose Between Them)," *Journal of Applied Corporate Finance* 10 (1997): 114–122.

### **Week 13: Real options**

Required reading: Berk and DeMarzo - Chapter 22.

Additional readings:

A. Triantis and A. Borison, "Real Options: State of the Practice," *Journal of Applied Corporate Finance* 14(2) (2001): 8–24.

R. McDonald, "Real Options and Rules of Thumb in Capital Budgeting," in M. Brennan and L. Trigeorgis (eds.), *Project Flexibility, Agency, and Competition* (Oxford University Press, 2000).

### **Week 14: Raising equity capital**

Required reading: Berk and DeMarzo - Chapter 23.

Additional readings:

P. Gompers and L. Lerner, "The Venture Capital Revolution," *Journal of Economic Perspectives* 15(2) (2001): 145–168.

B. E. Eckbo, R. Masulis, and O. Norli, "Security Offerings: A Survey," in B. E. Eckbo (ed.), *Handbook of Corporate Finance*, Vol. 1: Empirical Corporate Finance (Elsevier/ North Holland, 2007).

J. Ritter, "Investment Banking and Securities Issuance," in G. Constantinides, M. Harris, and R. Stulz (eds.), *Handbook of the Economics of Finance* (North-Holland, 2012).

### **Week 15: Raising capital through debt markets**

Required reading: Berk and DeMarzo - Chapter 24.

Additional readings:

R. Billingsley and D. Smith, "Why Do Firms Issue Convertible Debt?" *Financial Management* 25(2) (1996): 93–99.

### **Week 16: Leasing**

Required reading: Berk and DeMarzo - Chapter 25.

Additional readings:

J. Ang and P. Peterson "The Leasing Puzzle", *Journal of Finance* 39(4) 1984.

R. Bowman, "The Debt equivalence of Leases: An Empirical Investigation", *Accounting Review* 55(2) 1980.

### **Week 17: Working capital management and Short-term financing**

Required reading: Berk and DeMarzo - Chapters 26 and 27.

Additional readings:

H. Almeida, M. Campello and M. Weisbach, "The Cash Flow Sensitivity of Cash", *Journal of Finance* 59(4), (2004).

S. Mian and C. Smith, "Accounts Receivable Management Policy: Theory and Evidence", *Journal of Finance* 47(1) 1992.

G. Gallinger and B. Healy, *Liquidity Analysis and Management* (Addison-Wesley, 1991).

## **Weeks 18 and 19: Mergers and Acquisitions**

Required reading: Berk and DeMarzo - Chapter 28.

Ruback, R.S., (1987). An overview of takeover defenses. In *Mergers and acquisitions* (pp. 49-68). University of Chicago Press.

Damodaran "The Value of Synergy" 2005, available online at:  
<http://people.stern.nyu.edu/adamodar/pdfiles/papers/synergy.pdf>

Additional readings:

Donald M. DePamphilis, "Mergers, Acquisitions and Other Restructuring Activities", Seventh Edition, (Elsevier).

Hillier, D., Grinblatt, M. and S. Titman (2012), *Financial Markets and Corporate Strategy: European Edition*, 2nd Edition, Irwin/McGraw-Hill.

J. Weston, M. Mitchell, and J. Mulherin, *Takeovers, Restructuring and Corporate Finance* (Prentice - Hall, 2004).

## **Week 20: Corporate governance**

Required reading: Berk and DeMarzo - Chapter 29.

Additional readings:

M. Becht, P. Bolton, and A. Roell, "Corporate Governance and Control," in G. Constantinides, M. Harris, and R. Stulz (eds.), *Handbook of the Economics of Finance* (North- Holland, 2003: 1–109).

Edmans, Gabaix, Jenter, "Executive Compensation: A Survey of Theory and Evidence", *Handbook of the Economics of Corporate Governance*, Hermalin, B.E., Weisbach, M.S. (Eds.), (Elsevier, Amsterdam, 2017).

Jiang, F. and Kim, K.. *Corporate governance in China: A survey*. *Review of Finance* (2020)

NOTE: copyright for articles, including those linked via 'My Resource List', resides with the authors. These articles should be used as part of the module only.

Patricia Boyallian & Mohamed Ghaly January 2024