

Class Syllabus Corporate Financial Policy 501.E

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Time and Location: TBA

Teaching Assistants: TBA

Office Hours: Monday, Wednesday 11:30-12:30 (other times by appointment)

Note that this syllabus is tentative and changes can be announced in class anytime – I also welcome class suggestions to improve the learning experience

Course Description:

This course introduces the students to the foundations of finance, mainly from the perspective of a corporation. The main questions we will discuss are

- What (long-term) investments a firm should engage in? (capital budgeting)
- How the firm should finance these investments? (capital structure)

To address the first question, we will introduce the concepts of cash flow and the cost of capital, which will be combined to engage in discounted cash flow (DCF) valuation. For the second question, we will discuss the indifference of capital sources in the world of Modigliani-Miller, and why capital structure matters in the real world. We then proceed to study how taxes and bankruptcy costs affect target leverage rates for a publicly traded corporation, and will also cover the pecking order theory. See page 3 of the syllabus for more details.

Course Objectives and Special Features:

The main objective of the course is to get an appreciation for the terribly difficult challenges modern corporations face. Critical, independent thinking is far more than important than passive memorization of course lectures or (mathematical) methods.

The official course language is English. A significant focus of this class is on verbal discussions in the class room. It is not necessary to be perfect in English – instead you should aim to present yourself in a confident, professional way in English. This includes being clearly understood by your teacher and classmates. The instructor wants to encourage active participation in class.

Class Reading:

The textbook for this class is “Corporate Finance” by Ross, Westerfield, and Jaffe. The book is currently available in the 9th edition. Note that the international edition is available here in Korea and is significantly cheaper. Please note that there are several similar books, so check to buy the right one. You must have access to the book, but do not need to own it. The class will cover the

initial 17 chapters in the textbook. The students need to read the relevant chapters in the textbook in advance and participate in class discussions. You can also use a Korean textbook for studying.

In addition, it is recommended that students read some English language financial publications. Recommended choices are: *The Wall Street Journal* (U.S. focus), *Financial Times* (European focus), and *The Economist* magazine (British magazine with excellent in-depth articles on business, economics, and financial markets). Such reading will be helpful to your understanding of finance, and also increase your value in the job market.

Grading:

The final grade will be determined as follows:

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| • Participation in class discussions and homeworks | 15% |
| • Midterm exam: | 25% |
| • Final exam: | 35% |
| • Group work (1 case study project with group presentation and one or two group data analysis projects) | 25% |

One midterm and one final exam will be held for this course. Not attending exams is only permissible for medical reasons (bring doctor's note, which can be in Korean). Exams are closed book, and the only tool allowed is a calculator. Exams require you to explain your thought process – calculating numbers is not sufficient.

The grading reflects emphasis on discussion and presentations. I intend to hold the class not with too much lecturing, but hope for a lot of interactive discussions. Students may be called upon to answer questions or express their opinion. The textbook material is not definitive, but open to debate. I value independent thinking is emphasized, while memorizing or repeating the textbook is not sufficient. Grade distribution: A: around 35-45%, B around 45-55%, C and below 0-10%.

Towards the end of the semester, we will engage in a case study project. Students should form their own teams (or will be assigned to teams) and prepare a short written summary. In addition, each team will present in class. Both content and style of the presentation will be graded.

I also include 1-2 data analysis projects which show you how class material is applied in quantitative research in the financial services industry.

Course Policies:

- Attendance: You are responsible to attend class regularly. You will not be able to learn and participate in discussions without regular attendance. Note that the instructor aims to present the material from a slightly different angle than the textbook. Please also interact with your classmates, both Korean and international.

- Assignments: About five assignments will be made by the instructor. They will be graded on the basis of check-plus, check, check-minus. The main purpose of the assignments is to provide some practice for the exams.
- You need to follow general KAIST classroom policies, including policies on academic honesty. Students guilty of cheating in an exam or showing plagiarism in writing reports will receive an F in the course and whatever additional disciplinary action the University imposes. If you are uncertain about any rules, you must ask about them in advance or you will receive a grade of F if you break the rules.
- If you have any personal problems, please talk to the instructor early.

Tentative Schedule of Topics:

<i>Topic</i>	<i>Reading</i>
1. Introduction to corporate finance	ch. 1
2. Accounting and finance: From earnings to cash flows	ch. 2
3. Time value of money and NPV	ch. 4
4. Basic valuation of bonds and stocks	ch. 8, 9
5. Alternative Investment rules	ch. 5
6. Capital budgeting and discounted cash flow valuation	ch. 6
7. Corporate Strategy, flexibility, real options, and NPV	ch. 7, notes

Midterm: Last week in March (23th or 25th), with preparation session in advance

8. Risk, return, and the CAPM	ch. 10, 11
9. The CAPM and the cost of equity capital, WACC, and corporate finance applications	ch. 13
10. Market (in-)efficiency (<i>time permitting</i>)	ch. 14
11. Capital structure	ch. 16, 17

Case study report due and in class presentations: May 4 - 8

12. An alternative to WACC: APV (<i>time permitting</i>)	ch. 18
13. Short-term financing and cash management	ch. 26, 27

Final exam: May 18th or 20st (with preparation session in advance)

Note: This class is the basic finance class with focus on the perspective of corporations. Our insights depend on important issues that we will only cover on an intuitive level, such as the functioning of asset markets (CAPM) and the (in-) efficiency of these markets (ch. 14). Both will be analyzed more deeply in your investments class. Short-term financing and cash management is discussed from a purely applied perspective.