

JEM034 Examination topics for the course Corporate Finance

1. Capital structure in a perfect market: levered and unlevered equity, Modigliani-Miller propositions I and II, homemade leverage, levered recapitalisation.
2. Weighted average cost of capital: comparison between Modigliani and traditional view, WACC with corporate tax, WACC formulas (annuity, perpetuity, growing annuity).
3. Debt and taxes: tax shield, value of firm with taxes, leveraged recapitalisation with taxes, personal taxes, effective tax advantage of debt, imputation system.
4. Financial distress: direct and indirect costs of distress and bankruptcy, unlimited and limited liability, value of firm with financial distress, agency costs of leverage, over and under investment problem, agency benefits of leverage.
5. Payout policy: types of dividends, dividends day, share repurchase, irrelevance of payout policy, optimal payout policy with taxes, payout versus retention of cash, signalling with payout policy, stock dividend.
6. Equity financing: types of equity, initial public offering, determination of the offer price, seasoned equity offering, rights offer.
7. Debt financing: differences between equity and debt, classification of debt, bond covenants, callable bond, sinking fund, convertible bond, warrant.
8. Leasing: classification of lease transactions, reasons for leasing, leasing versus borrowing and buying, lease-equivalent loan.
9. Short-term financing: net working capital, operating cycle, trade credit, accounts receivable and payable, factoring, effective annual rate of borrowing,
10. Inventory and cash management: Baumol model, inventory as collateral, money market instruments
11. Mergers and acquisitions: reasons to acquire, acquisition premium, leveraged buyout, stock-swap transaction, merger arbitrage, takeover defences.
12. Capital budgeting: incremental free cash flow, weighted-average-cost-of-capital method of valuation, adjusted-present-value method of valuation, flow-to-equity method of valuation, assessing uncertainty.
13. Real options: decision tree analysis, waiting option, growth option, abandonment option.