



AI2144 Corporate Finance 7.5 credits

Företagsfinansiering

This is a translation of the Swedish, legally binding, course syllabus.

If the course is discontinued, students may request to be examined during the following two academic years

Establishment

The course syllabus is valid from spring term 2020.

Grading scale

A, B, C, D, E, FX, F

Education cycle

Second cycle

Main field of study

Built Environment, Industrial Management

Language of instruction

The language of instruction is specified in the course offering information in the course catalogue.

Intended learning outcomes

After the completion of the course, students should be able to:

- Describe and explain the main factors affecting interest rates and be able to value risk-free and risky bonds.
- Describe and explain Modigliani and Miller's theory of irrelevance of the capital structure for the value of a firm in perfect capital markets and derive and explain the relationship between leverage and the required rate of return on a firm's assets as well as the firm's debt and equity.
- Describe, explain, compare and critically discuss how market imperfections such as taxes, financial distress, risk of bankruptcy, agency costs and benefits and asymmetric information may affect a firm's choice of capital structure.
- Describe and explain different ways of distributing capital to shareholder and Modigliani and Miller's theory of irrelevance of dividend policy for the value of a firm in perfect capital markets and how market imperfections may affect a firm's choice of dividend policy.
- Describe, explain, compare and critically discuss the main methods for capital budgeting with leverage and market imperfections and their suitability depending on the capital structure of the firm. Furthermore, through group work the students should apply the different methods of capital budgeting by constructing computer based valuation models for a firm with different assumptions regarding the firm's capital structure.
- Describe and explain the process of raising equity capital and debt financing for new and mature firms.

Course contents

Interest rates and bond valuation. The relationship between financial leverage, risk and return. The Modigliani and Miller theory of capital structure in a perfect capital market and the effect of market imperfections on a firm's choice of capital structure. Dividend policy. The main methods of capital budgeting with leverage and market imperfections. The process of raising equity capital and debt financing.

Specific prerequisites

Knowledge in quantitative methods equivalent to the content in the course AI2152.

Examination

- TEN1 - Examination, 5.5 credits, grading scale: A, B, C, D, E, FX, F
- ÖVN1 - Assignment, 2.0 credits, grading scale: P, F

Based on recommendation from KTH's coordinator for disabilities, the examiner will decide how to adapt an examination for students with documented disability.

The examiner may apply another examination format when re-examining individual students.

The project work is done in groups, but the students are examined on an individual basis. Students must complete the project work within the time limit given by the head teacher in order to pass the project. Students who fail the project may be examined again during the following re-exam period.

Other requirements for final grade

Project work (PRO1), 2.5 hp, with grade P and written exam (TEN1), 5 hp, with grade E or higher. If these requirements are fulfilled, the final grade on the course will be the same as the grade on the written exam (TEN1).

Ethical approach

- All members of a group are responsible for the group's work.
- In any assessment, every student shall honestly disclose any help received and sources used.
- In an oral assessment, every student shall be able to present and answer questions about the entire assignment and solution.