DEPARTMENT OF ACCOUNTING AND FINANCE

CORPORATE FINANCING

CLASS CODE AG430

2014/2015 SEMESTER 1

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Please do not hesitate to contact me with any course problems.

CLASS DESCRIPTION

The class studies the theory of capital structure, management of financial resources, security issuance methods and corporate payout policy at an advanced level.

CLASS AIMS

The class aims to develop a deep understanding of the ideas necessary to analyse the firm’s financing decisions with regards to capital structure and liquidity management, security issuance and payout policy. The class examine the role of financial market frictions including asymmetric information, incomplete contracting, irrational market participants and taxation in explaining observed corporate financing policies. The class is based mainly on academic research articles that have influenced and directed current understanding in theory and policy surrounding Corporate Financing decisions.

LEARNING OUTCOMES

The following learning outcomes will contribute to your self-analysis and reflection in your Student’s Personal Development Planning (SPDP). These learning outcomes will be assessed using the methods explained in the “Assessment” section in this Outline.
Subject-specific knowledge and skills

On completing this class you will be able to:

A.1 Analyse the different signalling properties of dividends and repurchases as alternative methods of returning cash to shareholders.

A.2 Evaluate recent developments in corporate payout policy in light of managerial and investor preferences for repurchases relative to dividends.

A.3 Evaluate the various explanations put forward for why dividends are said to be ‘disappearing’ over time.

A.4 Analyse a company’s capital structure decisions with reference to trade-off theories, information asymmetry, behavioural market timing, agency theory, and managerial entrenchment.

A.5 Analyse the factor’s the affect a firm’s balance of cash and cash equivalents on the balance sheet.

A.6 Evaluate the factors that cause companies to choose to list their shares in public stock exchanges.

A.7 Analyse a company’s decision regarding the mechanism used to raise equity as part of a seasoned offering, and the role of underwriters in certifying the quality of issuing companies.

A.8 Explain and evaluate the issues to consider when deciding the markets that a company should borrow from.

A.9 Recognise the limitations of formal models in corporate finance theory, including an awareness of methodological approaches and data collection and analysis.

A.10 Have an understanding of recent developments in corporate financial theory and policy literature.

Cognitive abilities and non-subject specific skills

The class aims to develop:

B.1 The ability to extract arguments, and modes of reasoning and evidence from theoretical and empirical academic articles, and to establish their contribution to our understanding and interpretation of key issues.

B.2 A capacity to consider the relevance of academic research to practical scenarios that require individual and institutional decision making.
B.3 The ability to understand and explain complex issues within corporate financial policy in a manner that is suitable to a financially trained and non-financially trained audience.

B.4 The ability to critically appraise advanced journal articles and communicate the essence of such articles.
ASSESSMENT

2 hour formal examination in January 2015. This will constitute 60% of your mark for this course.

Coursework 1. Each student is required to provide a comprehensive critical review of a key article from the class reading list. The critical review should cover the key issues in the paper – its motivation including a summary of its placing in the context of prior literature, a discussion of the sample selection and empirical approach used, and a discussion of the key findings and their implications. This will constitute 20% of your mark for the course. Further details will be given out during the first lecture. Students are invited to select the papers they wish to discuss in advance and timetable these round other pieces of assessment they may have. Students are invited to sign up for an article review through the course website.

Coursework 2. Each student will complete a case study of a corporate financing decision. Students will complete this work on a group basis. This will constitute 20% of your mark for the course. Further details will be given out during lecture 3. The submission date for coursework 2 is 12noon on Friday 7th November 2014.

Essays that are submitted late will be penalised according to the Business School Faculty’s guidelines. Details can be found on the Department of Accounting and Finance website. Any essays not submitted by one week after the initial deadline will receive a mark of 0%. Failure to complete all compulsory elements of the course assessment will result in an outstanding coursework (OC) being placed on student’s record leaving such an individual unable to graduate until such times as the assessment is completed.

Reassessment

There are no re-sit examinations for honours classes.
TEACHING AND LEARNING

Students with special needs should contact Jillian D’Agostino in the Accounting and Finance departmental office (Level 3 Curran Building). If you need any of the class materials in a different format due to special needs, you should get in touch with Jillian.

The class is booked as a three hour lecture each week. The lecture schedule and details of reading / non-lecture weeks will be distributed during the first meeting of the class. During lectures 1 to 3 the class will be run using a traditional lecture format. From lecture 4 onwards students will be asked to run part of the class as a discussion group for that week’s reading articles and the class will be led by those students completing the coursework article from that week’s lecture.

PREREQUISITES

AG210 Business Finance, and acceptance into honours year.

READING: JOURNAL ARTICLES

The majority of readings are taking from leading finance journals including:

- THE JOURNAL OF FINANCE
- THE JOURNAL OF FINANCIAL ECONOMICS
- REVIEW OF FINANCIAL STUDIES

READING: TEXTBOOKS

For general revision purposes, the following texts are recommended:


Two popular British texts are:

*Corporate Financial Management*, 4th edition, by Glen Arnold, FT/Prentice Hall, 2008, and

LECTURE PROGRAMME

Teaching weeks:

1. Introduction to class. Signals provided by corporate payout policy;

2. Taxes, institutional investors and corporate payout policy;

3. Explanations for disappearing dividends and other recent developments in capital structure research;

4. Trade-off and agency models of capital structure;

5. Asymmetric information based theories of capital structure;

6. Market-timing and other recent developments in capital structure research;

7. Cash management and internal capital markets;

8. Why do firms go public? An analysis of the IPO decision;

9. Mechanisms for raising seasoned equity;

10. Issues in debt financing: source, maturity, and other loan characteristics.
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| 80 – 100 | **Outstanding demonstration of learning outcomes:**  
|   | • wide, appropriate knowledge and understanding (and where appropriate  
|   |   effective project work) including insight and originality  
|   | • evidence of reading and thought beyond course/assignment materials  
|   | • appropriate use of references and exemplars  
|   | • an outstanding standard of writing and communication and/or presentation |
| 70 – 79  | **Excellent demonstration of learning outcomes:**  
|   | • wide, appropriate knowledge and understanding (and where appropriate  
|   |   effective project work) including insight or originality  
|   | • evidence of reading and thought beyond course/assignment materials  
|   | • appropriate use of references and exemplars  
|   | • an excellent standard of writing and communication and/or presentation |
| 60 – 69  | **Comprehensive demonstration of learning outcomes:**  
|   | • wide appropriate knowledge and understanding (and where appropriate  
|   |   effective project work) with only occasional lapses in detail  
|   | • evidence of reading and thought beyond course/assignment materials  
|   | • a high standard of writing and communication |
| 50 – 59  | **Satisfactory demonstration of learning outcomes:**  
|   | • sound knowledge and understanding of essential material (and where  
|   |   appropriate essential project skills)  
|   | • general accuracy with occasional mistakes and/or uncoordinated use of  
|   |   information |
| 40 – 49  | **Adequate demonstration of learning outcomes:**  
|   | • basic knowledge and understanding (and where appropriate basic project  
|   |   skills)  
|   | • omissions and/or weaknesses of presentation and/or logic and/or evidence |
| 30 – 39  | **Limited demonstration of learning outcomes:**  
|   | • some relevant information and limited understanding (and where appropriate  
|   |   some project work completed under supervision)  
|   | • omissions and/or weaknesses of presentation and/or logic and/or evidence  
|   | • lack of familiarity with the subject of assessment and/or assessment vehicle |
| 20 – 29  | **Inadequate demonstration of learning outcomes:**  
|   | • a few key words, phrases or key ideas  
|   | • extensive omissions and/or weaknesses of presentation and/or logic and/or  
|   |   evidence  
|   | • serious errors  
|   | • inadequate evidence of learning or inadequate project work |
| 1 – 19   | **Weak performance in learning outcomes**  
|   | • serious errors  
|   | • extensive omissions and/or weaknesses of presentation and/or logic and/or  
|   |   evidence  
|   | • deficient evidence of learning or deficient evidence of project work |
| 0        | **No relevant work submitted for assessment**  