

# Corporate Finance

**KAIST**  
**Professional MBA**  
**BAF 501P**

Spring 2024

Class Hours: 7:00 p.m. - 9:50 p.m. on Thursdays

Room: 9701

Course website: <http://klms.kaist.ac.kr>

Office Hours: 6:30 - 6:50 p.m. on Thursdays and by appointments

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Teaching Assistants:

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## Course Objectives:

This course is designed to help students develop conceptual foundations that are required to understand various finance theories, and learn basic tools that are useful in making optimal financial decisions. The issues addressed in this course include time value of money, discounted cash flows analysis, relation between risk and return, cost of capital, capital budgeting analysis, capital structure, how to raise capital, Economic Value Added (EVA) and options. These are essential topics that need to be understood by managers to make informative decisions on various corporate finance related issues.

## Required Materials:

- Corporate Finance by Ross, Westerfield, Jaffe, Lim, Tan and Wong (Asia Global Edition, McGraw-Hill, 2015) or any other corporate finance book.
- Various materials available on the course web site..

## Contact Information

Everyone is welcome to stop by my office during the office hours to discuss any class related issues. I strongly encourage students to contact me even outside my regular office hours whenever clearer explanations for any covered topics are necessary. The best way to communicate is through email but an alternative arrangement can be made once an email is received with a clear indication of requesting for an alternative arrangement. For this course, TA's role is to help the course with class logistics, not to help students with the contents of the class. **All course materials and contents related questions should be directed to me.**

## Grading Policy

1. Two Exams (40%)
2. Two Quizzes (10%)
3. Two Group Assignments (10%)
4. Final Group Project and Presentation (30%)
5. Participation and Attendance (10%)

**F will be given when one misses classes more than four times. You should turn on the video during the class to be counted as "attending the class", when the class is held online.**

## Exam

There will be two exams and each will cover 20% of the final grade. After the first exam, students will be given a **free option to change the weights to 10% (first exam) - 30% (second exam)**. More details will be announced after the first exam. Students are responsible for the topics covered during the class. For the second exam, students are responsible for only those topics covered after the first exam. Exams are closed-book exams but students are allowed to bring an A4 size paper with any relevant **hand-written** notes on **one side** of the paper. **Copies of lecture notes or typed notes are NOT** allowed. Students who violate this rule will receive only **50%** of exam scores.

## Quizzes

There will be two quizzes and they will cover 10% of the final grade. Each quiz will cover the materials discussed in the previous class and will be either

multiple-choice problems or O/X type questions. The quiz will start at the beginning of a class and will take less than 10 minutes to finish each quiz. For those who are late for the class or miss the class when quizzes are taken, **the score will be zero** for the quiz taken on that date **if it happens more than once**. For those who miss the quiz only once, **70%** of the other quiz's score will be assigned as the score of the missed quiz. **No make-up quiz** will be arranged.

### **Group Assignments**

Everyone will be asked to join a group of 4 (or 5) students on the first day of the class. Each group is responsible for the submission of a group report on each assignment and for the preparation of a presentation during the class. Assignments should be submitted through an email by **7:00 a.m.** on the due date. **Groups submitting an assignment after a due time will receive a partial or zero score depending on the time submitted.** For a late submission, **20%** of the score will be deducted **for each one-hour-bracket after 7:00 a.m.** For example, if an assignment is submitted at 9:10 a.m., then 60% ( $= 20\% \times 3$ ) of the score will be deducted from the graded score (i.e., if the score without a penalty is 90, then the final score will be  $36 (= (1 - 60\%) \times 90)$ ). This means that **an assignment submitted after 12:00 p.m. will receive a zero score.** Finally, a submitted file name should be in the following format: "**Group#\_Ass#**" (for example, for the group 1 and for the assignment 1, "Group1\_Ass1"). Please send your assignment to **both TAs and me.**

### **Final Group Project & Presentation**

Each group is responsible for choosing a public company (i.e., a KSE-listed or KOSDAQ-registered firm) and writing a thorough report on the firm's various corporate finance issues covered in the class. The report should include: 1) a brief summary of the firm's background information; 2) costs of equity and bond estimates; 3) various firm risk measures; 4) capital structure and dividend policies compared to those policies of other firms in the same industry); 5) detailed discussion on at least one financing case of the firm; and 6) detailed discussion on at least one corporate event (e.g., IPO, M&A, or analysis of an interesting major investment project). A discussion of any other interesting corporate finance related issues of the firm will be a plus. The report should be **no longer than 15 pages** (double spacing with at least 10 pitch) including all exhibits. A submitted file name should be

in the following format: “**Group#\_FP**” (for example, for the group, “1”, “Group1\_FP”). Each group should notify me the target company to analyze by **May 2** by an email. Please start to work on the final group report as soon as possible. The due date is **May 30**. Each group also needs to present the final group report for about 15 minutes in the class during the last week of the semester.

### **Participation & Attendance**

Most students with regular participation and attendance will get 7 points out of 10. Students with very active participation and perfect attendance will get 10 points. Students with no participation or many absences will get 2 points.

### **Group Management**

Each member of a group is expected to motivate others to participate equally. To discourage someone from shirking, a **peer evaluation** will be done during the final exam to identify those who are obviously free-riding. Those who receive **the worst evaluation (1 out of 5) from all other members will get zero scores** for all group assignments. Those who receive the worst evaluation from the majority of group members will receive only **50%** of the scores received by the group for all group assignments.

## Course Schedule

The following summarizes topics and articles to be covered in each class during the semester. Both topics and articles to be covered are **subject to change**. Any changes made will be posted in the course website.

Week	Topic	Due Date
1W (2/29)	Introduction, Financial Statements, and Time Value of Money	Ch. 1, 2 & 4
2W (3/7)	Securities Valuation	Ch. 8 & 9
3W (3/14)	Net Present Value, IRR and Other Capital Budgeting Issues	Ch. 5 & 6 <b>Quiz 1</b>
4W (3/21)	Risk and Return	Ch. 10 & 11 <b>Ass. 1</b>
5W (3/28)	CAPM and Cost of Capital	Ch. 11 & 13
6W (4/4)	Capital Structure and Dividend Policy Graham and Harvey (2002, JACF) Graham (2022, JF)	Ch. 16, 17 & 19
7W (4/11)	Dividend Policy and Options	Ch. 19 & 22 <b>Ass. 2</b>
8W (4/18)	<b>Exam</b>	<b>Exam 1</b>
9W (4/25)	Option Values, Real Options and Venture Capital Sahlman (Summer 1988, JACF)	Ch. 22, 7 & 20
10W (5/2)	Venture Capital and Issuing Securities Gompers, Gornall, Kaplan, and Strebulaev (2020, JFE)	Ch. 20 <b>Final Report</b> <b>Target Firm</b>

	IPOs and Seasoned Equity Offerings	
11W (5/9)	Ritter (2003, North-Holland Chapter 5) Loughran and Ritter (March 1995, JF) Gahng, Ritter and Zhang (2023, RFS)	Ch. 20 <b>Quiz 2</b>
	Economic Value Added (EVA) & M&As	
12W (5/16)	Shawn Tully (Sep. 20, 1993, Fortune) Hazelkorn, Zenner and Shivdasani (Spring/Summer 2004, JACF) Loughran and Vijh (Dec. 1997, JF)	Ch. 29
	Convertible Bonds and Contingent Capital, and Risk Management	
13W (5/23)	Michael Brennan and Eduardo Schwartz (Summer 1988, JACF) Mayers (Spring 2000, JACF) Chacko, Tufano and Verter (Spring 2002, JACF) Smithon and Simkims (Summer 2005, JACF)	Ch. 24 & 25
14W (5/30)	Final Project Presentation	<b>Final Project Due</b>
15W (6/6)	No Class	<b>Holiday</b>
16W (6/13)	<b>Exam</b>	<b>Exam 2</b>