**Corporate Finance (advanced level)**

This discipline refers to the base part of the cycle of disciplines in the education of a master-level, it is realized in the 1 year at 1-2 modules.

The study of this discipline is based on the following disciplines:

• Macroeconomics

• Econometrics (advanced level)

To study the discipline, students should possess the following skills and competencies:

* + To know the background, structure and economic conclusions of microeconomic, macroeconomic and econometric models;
	+ To be able to formulate and solve problems arising in academic research and educational activities that require in-depth professional knowledge;
	+ To be able to choose appropriate methods and models to study specific micro- and macroeconomic processes, adapt existing methods to the requirements of the specific tasks, as well as to develop new methods;
	+ To present the results of theoretical and applied research in the form of written papers;
	+ To be able to conduct independent research.

Basic elements of the discipline should be used for further study of the following disciplines:

• Valuation of the company

• Financial planning in corporate structures

• Analysis of financial markets.

Content of the discipline is determined by several thematic blocs.

Section 1. The main concept of company valuation includes:

Fundamental principles and approaches to company valuation. The method of discounted cash flows and the principles of company valuation as the present value of an asset generating cash flow.

Factors determining the value of the firm and their classification. Evaluation of the ability of the company to generate cash flow from the assets used, the expected rate of growth in the current, the time required to achieve sustained growth.

Comparison of methods. Principles of selecting equivalent companies.

The reasons of differences in valuation results obtained on the basis of different methods.

Case analysis, identification of conditions of financial bubbles.

Cash flow of the firm (FCFF) and owners (FFCE), the calculation of the present value (PV), the terminal value (TV), calculation of the company value through expected cash flows from dividend.

Section 2. Modern cost of capital theories and applications provides study:

The role of the cost of capital in the modern financial analysis of the firm.

The cost of equity capital: analysis of adequacy of the "accounting" and "fundamental" beta, discussion of methods of calculating market risk premium and risk free rate.

The principles of the analysis of the expected return on the basis of the CAPM in emerging capital markets. Country risk and its components, CRP. CAPM modifications for emerging market (Hybrid CAPM, local CAPM adjusted CAPM). Alternative approaches to the analysis of the cost of equity in emerging markets: the principles of D-CAPM by Estrada, Viscanta-Erb-Harvey model, cumulative methods, ect.

The cost of borrowing in the case of complex attracting bank loans. Direct method, YTM method, credit and synthetic rating in bond valuation. The cost of capital raised in the form of long-term rent of lease payments. The cost of capital in case of issuance of convertible bonds. The cost of capital in the case of risky debt.

Section 3. Capital structure theory integrates questions:

The role of the capital structure concept in a modern financial analysis.

MM Theorem as a methodological basis of research of capital structure. The development of models of analysis of the capital structure in the context of a weakening base theorem MM assumptions.

The capital structure in terms of information asymmetry and development of signal approaches to the capital structure analysis: Models of Ross (1977), Myers-Majluf (1984). Methods and results of research on the role of information asymmetry in the choice of capital structure.

The development agency models of capital structure: balancing the agency costs of debt capital and the agency costs of equity (Shulz, 1990; Harris-Raviv, 1990). Methods and key results of empirical tests of agency models of capital structure.

Development of the trade-off theory: the need to move from a static to a dynamic model of capital structure. Calculation of the bankruptcy costs (Leary / Roberts, 2004). Evaluation of the direct costs of financial instability (Antrade, Kaplan, 1998; Weiss, 1990; Maksimovich, Phillipps, 1998). Analysis of tax benefits, associated with debt financing. Dynamic compromise model structure in the condition of absence of transaction costs (Brennan, Schwartz, 1984). Revision of financial leverage (mean reversion of financial leverage) and the dynamics of movement to the target structure capital structure. Calculation of adjustment costs: the model with the minimum and maximum limit for financing policy (upper and lower limit policy of the firm, Fischer, et all, 1989). Methods and key results of the empirical testing of the trade-off theory (Rajan, Zingales, 1995; Gul, 1999; Hovakim, Opler, Titman, 2001).

The principles of pecking order theory (Shyam-Synders, 1991; Frank, Goyal,2003; Fama, French, 2002). Signal argument in pecking order theory of funding. The pecking order of equity flota-tion method (Eckbo, Norli, 2004). Pecking order theory with the asymmetry of information about the company's risk (Halos, Heider, 2004). Window of opportunity theory and its role in development pecking order concept (Backer, Wurgler, 2002).

Determinants of capital structure in developing markets, in Russian market.

Section 4. Payout policy discloses:

Theories of divided policy. Right and left radical theory and empirical support. MM theory of payout policy. Differences in tax payments for capital gains and dividends. Client group theory.

"Systematic facts" of Lintner and their estimation. Multicounty comparisons of dividend policy.

Signaling effects in payout policy and empirical support. Models of the stock repurchase policy and empirical studies (Alen, Bernardo, Welch, 2000, Grullon, Michaely, Swamianathan, 2002). Basic methods of testing the signal effects of corporate payout policy: events study, time series analysis (Fama, French, 2001). Key results of empirical studies.

Alternative models of payout policy. Models of life-cycle in explaining payout policy: theory and empirical estimation. The link between investment and dividend decisions. Behavioral explanations of payout policy.

Stylized facts of stock repurchase. The costs of adverse selection in the transactions of stock repurchase (Brennan, Thakor, 1990). Empirical evidence of stock repurchases. Decisions about conducting of stock repurchase scheme and option payments to management (Weisbenner, 2000).

Empirical research of corporate payout policy in developing markets.

Section 5. Financial architecture summarizes:

Decisions on the initial public offering (IPO): principles of analysis and models. Results of IPO in conditions of information asymmetry between managers and investors, or information asymmetry between investors. Long-term trends in the IPO returns. IPO analysis for the growing capital markets.

The formation of the target capital structure. Using dynamic concepts of capital structure for modeling the optimal capital structure. Simulation of adaptation to the optimal capital structure: distress tax model (Titman, Opler, 1994). Estimation of target capital structure: the model of weighted average cost of capital (ranking method), operating profit model, the adjusted present value model. regression models. Stakeholder's theory and its use to determine the target capital structure. Planning target capital structure in companies with growth opportunities (Lang, Stultz, Ofek, 1996). Evaluation of the financial flexibility of the company using the method of real options. Planning a complex capital structure. The possibility of using the capital structure models in emerging capital markets.

Section 6. Corporate governance systematizes problems:

Corporate management, corporate governance and the company's life cycle. Ownership structure and business performance: corporate performance of managers-owned companies. Institutional ownership and its impact on corporate performance. The nonmonotonic dependence of the ownership structure and performance of the company. The nonmonotonic dependence of the degree of ownership concentration and the performance of the company (McConnell, Servaes, 1999; Gugler, 2004).

Acquisitions of subsidiaries and controlling interest, the creation of the internal capital market. Methods of analysis of the internal capital market: estimation of excess net external capital (Peyer, 2001), the domestic capital market index (Billet / Mayuer, 2003). Effects caused by internal capital market: cross-subsidization of divisions, agency motives managers of diferent divisions. Corporate Diversification and Corporate Performance. Challenges and key results of Corporate Diversification Research.

Compensation schemes of management based on options as a tool for corporate control and financial architecture element: common option contracts and leveraged stock options. Studies of the role of option compensation schemes.

Basic literature:

1. Damodaran A.(2014) Applied Corporate Finance, 4rd Edition, Wiley
2. Teplova T. (2013) Investments, М: Urait (in Russian)