University of Lisbon

ISEG

1911

Course Syllabus

**Gestão Financeira II/Corporate Finance II/Advanced Corporate Finance**

2025-2026

**Instructor:** Professor José Azevedo Pereira, jpereira@iseg.ulisboa.pt

**Teaching fellows (TFs):** Prof. João Carlos Martins da Cunha Neves (joaoneves@iseg.ulisboa.pt); Dr. José Miguel Almeida (Jose Miguel Almeida (jma.mcf@gmail.com or jmsa@iseg.ulisboa.pt); Dr. Carlos Bastardo, (Carlos.bastardo@clix.pt or cbastardo@iseg.ulisboa.pt); Dr. Renato Inácio, (renato.inacio@iseg.ulisboa.pt).

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**Office hours:**

- Prof. José Azevedo Pereira, Monday, by appointment.
- Prof. João Carlos Martins da Cunha Neves, schedule to be defined following students' requests and a criterion of mutual convenience.
- Dr. Carlos Bastardo, schedule to be defined following students' requests and a criterion of mutual convenience.
- Dr. José Miguel Almeida, schedule to be defined following students' requests and a criterion of mutual convenience.
- Dr. Renato Inácio, schedule to be defined following students' requests and a criterion of mutual convenience.

**Course Description and Overview:**

The goal of this course is to develop a set of analytical skills capable of allowing the students to make appropriate corporate financial decisions and, also, to perform risk analysis. To achieve such a goal, it will be necessary to understand the theoretical pillars of the corporate finance field.

Topics covered include the concepts capital budgeting; risk analysis; corporate capital structure and financing decisions; payout policy and company valuation; financial and real option valuation. The course teaching methodologies will be based, both, on lectures and small case/exercises solution methods.

***Overview:***

1. ***Introduction***
2. ***The Capital Budgeting Decision***

3. ***Capital Structure and Payout Policy***
4. ***Financing and Valuation***
5. ***Financial Options***
6. ***Real Options***
7. ***Credit Risk and the Value of Corporate Debt***

***It is important to stress that point 7 will only be covered if i) time permits and ii) the teaching team will find it appropriate to cover those topics, given the evolution of the learning process.***

**Reading Material:**

This course requires students to work continually throughout the semester. The required textbook is[1]:

> **Principles of Corporate Finance** by Brealey, Richard; Myers, Stewart; Allen, Franklin; Edmans, Alexander. 14th edition, McGraw-Hill.

As an alternative, students might use the following textbook:

> **Corporate Finance** by Berk, Jonathan and DeMarzo, Peter, 6th edition, Pearson.

The books are available at *Livraria da Associação de Estudantes (ISEG)*, the major technical bookshops and online retailers. It is an authoritative text on corporate finance.

Additionally, a packet of lecture notes, exercises and problem sets will be available in the Course webpage.

Important note: Lecture notes are complements and not a substitute for the textbook.

The students are expected to check the course website regularly for announcements.

**Grading:**

Three things go into your course grade:

- Final Exam
- Quizzes
- Problem sets/small case studies

***The course grade will combine these in the following way[2]:***

[1] An excellent complementary reading is:

> **Corporate Finance**, by Hillier, David; Ross, Stephen; Westerfield, Randolph; Jaffe, Jeffrey and Johnson, Bradford. McGraw-Hill, 3rd European Edition.

[2] ***Please note that, except for the ER exam (the mark for students attending this exam will be given only by the grade obtained in the ER), the course grade will always be calculated using this formula. Naturally, if one of the components is missed, it will be assessed with a 0.***

Grade = 0.25 x (avg. best 3 quizzes) + 0.15 x (avg. best 2 problem sets) + 0.6 x Final exam

**To get a pass grade**, all students should get a mark of **at least 7,5** (out of 20,0) in the **final exam and the overall course grade,** calculated using the formulae above, **should reach at least 9,30** (out of 20,0).

Most exam questions will be in the same format and level of difficulty as the assignments, although it will be important to bear in mind that time pressure can make things more complicated.

Final exam is compulsory.

Assignments: There will be three problem sets distributed throughout the semester. Normally, they will be made available on a Thursday/Friday and will be due the following Monday morning at 12.00 am[3]. The course policy will be not to accept late assignments or grant extensions: a late assignment will translate into a grade of zero. In addition, there will be four short quizzes to be solved in short periods of time (normally, 15/20 minutes) during theoretical lectures.

The main purpose of the problem sets/ case studies consists in helping students to structure their work and check the corresponding progress, on one side, and allowing a quasi-continuous assessment of this evolution by the teaching team, on the other.

Problem sets might be solved in groups, defined during the first week of classes. If you select to work within a group, each person is asked to list the members of the group atop their submission.

*How to get a good grade in this class:*

1. Read the book chapter before class.
2. Come to class.
3. Read again the class notes and the book after class.
4. Do the assignments.

If you do this, you will most likely do very well in this class. Do not wait until the fourth or fifth week to start reading the book or class notes. Be responsible; keep up with the readings and assignments. This is a demanding class. And if you have trouble, seek help from the TFs or me. That is why we are here.

**Quizzes**

Quizzes will comprise of several multiple-choice questions. Basic knowledge of course material covered prior to the quiz will be tested. Quizzes will be taken during some (theoretical) lectures. **The corresponding dates will not be revealed in advance. Given the current conditions of the**

[3] This timing might change from one problem set to another.

**course (number of students in class and physical dimension of the lecture rooms), it was deemed appropriate to change the framework originally considered for these assessments.**

**As already mentioned in theoretical lectures, the *quizzes will be closed book assessments*, where only calculators will be allowed – no mobile phones, no computers)**.

**Problem Sets:**

The best way to learn the material is to solve many problems. There will be a total of 4 problem sets. Students should work on problem sets in groups of 2-3 people, handing in one set of solutions per group. Groups will be formed during the first week of class (you may choose your own group). Late problem sets will not be accepted. Your homework solutions should explain how you got to your answer as well as the answers themselves. I don't need to see the entire spreadsheet of cash flows, but I do need to see the formulas that you used to get to your answer, and an explanation of why the formula is correct. You can copy cells from the spreadsheet, as long as you provide an explanation and label any rows or columns referenced. If you feel it is necessary, you can print out the spreadsheet and attach it, provided you supplement it with an explanation of how it was generated. Please note that neither the TAs nor I will answer questions about how to do problem sets prior to their due date. Please discuss all such questions only within your group. If your group feels that the question is ambiguous, try to make reasonable assumptions and state them clearly.

**Other course policies**

***Class attendance:*** Attendance on-time is proper business etiquette and a minimal requirement for classroom participation. Please try to be in your seats by x:00 (where x is the scheduled timing to begin the class). The class will start promptly at x:03.

**Course Outline**

| Lecture | Topics |
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| 1 | • Introduction to Corporate Finance and Financial Markets:<br>o Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 1.<br>or<br>o Berk and DeMarzo, Corporate Finance, Chapter 1. |
| 2 | • Net Present Value and Other Investment Criteria<br>o Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 5<br>or<br>o Berk and DeMarzo, Corporate Finance, Chapter 7. |

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| 3 | • Net Present Value and Other Investment Criteria<br>  ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 5<br>  or<br>  ○ Berk and DeMarzo, Corporate Finance, Chapter 7. |
| 4 | • Making Decisions with the NPV Rule<br>  ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 6<br>  or<br>  ○ Berk and DeMarzo, Corporate Finance, Chapter 8. |
| 5 | • Making Decisions with the NPV Rule<br>  ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 6.<br>  or<br>  ○ Berk and DeMarzo, Corporate Finance, Chapter 8. |
| 6 | • Capital Structure & Payout Policy<br>  ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapters 15, 16 & 17<br>  or<br>  ○ Berk and DeMarzo, Corporate Finance, Chapters 14, 15, 16 & 17. |
| 7 | • Capital Structure & Payout Policy<br>  ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapters 15, 16 & 17.<br>  or<br>  ○ Berk and DeMarzo, Corporate Finance, Chapters 14, 15, 16 & 17. |
| 8 | • Capital Structure & Payout Policy<br>  ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapters 15, 16 & 17.<br>  or<br>  ○ Berk and DeMarzo, Corporate Finance, Chapters 14, 15, 16 & 17. |
| 9 | • Capital Structure & Payout Policy<br>  ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapters 15, 16 & 17.<br>  or |

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| | ○ Berk and DeMarzo, Corporate Finance, Chapters 14, 15, 16 & 17. |
| 10 | • Capital Structure & Payout Policy<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapters 15, 16 & 17.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapters 14, 15, 16 & 17. |
| 11 | • Capital Structure & Payout Policy<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapters 15, 16 & 17.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapters 14, 15, 16 & 17. |
| 12 | • Capital Structure & Payout Policy<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapters 15, 16 & 17.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapters 14, 15, 16 & 17. |

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| 13 | • Valuation: Dividend Discount Model, Weighted Cost of Capital Method, Capital Cash Flow & Adjusted Present Value Models and Valuation by Multiples<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 18<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapters 18, & 19. |
| 14 | • Valuation: Dividend Discount Model, Weighted Cost of Capital Method, Capital Cash Flow & Adjusted Present Value Models and Valuation by Multiples<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 18.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapters 18, & 19. |
| 15 | • Valuation: Dividend Discount Model, Weighted Cost of Capital Method, Capital Cash Flow & Adjusted Present Value Models and Valuation by Multiples<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 18.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapters 18, & 19. |
| 16 | • Valuation: Dividend Discount Model, Weighted Cost of Capital Method, Capital Cash Flow & Adjusted Present Value Models and Valuation by Multiples<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 18.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapters 18, & 19. |
| 17 | • Understanding Options<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 21.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapter 20. |
| 18 | • Understanding Options |

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| | ○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 21.~<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapter 20. |
| 19 | • Valuing Options<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 22.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapter 21. |
| 20 | • Valuing Options<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 22.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapter 21. |
| 21 | • Valuing Options<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 22.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapter 21. |
| 22 | • Real Options<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 23.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapter 22. |
| 23 | • Real Options<br>○ Reading: Brealey, Myers, Allen & Edmans, Principles of Corporate Finance, Chapter 23.<br>or<br>○ Berk and DeMarzo, Corporate Finance, Chapter 22. |