Professor	Prof. Dr. Bernhard Nietert
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ECTS	3
Examination	Final exam together with Banking (120 minutes)
Course description and learning objectives	The lecture clarifies the objective functions of corporations, discusses agency problems in corporate finance, and analyzes in details one specific corporate policy: hedging.
Course outline	1 Objective functions for corporations 1.1 Description of the decision problem 1.1.1 Verbal description of the decision problem 1.1.2 Formal description of the decision problem 1.2 Conflicts of interests 1.3 Condition for a unanimously supported corporate policy 1.3.1 1st case of unanimity: corporate policy does not matter because no-arbitrage is violated 1.3.2 2nd case of unanimity: general conditions that lead to unanimously supported corporate policy 1.3.3 3rd case of unanimity: subjective indifference in connection with Pareto improvement 1.3.4 Connection to Corporate Governance: German Corporate Governance Code 2 Agency theory 2.1 The nature of agency problems 2.2 Asymmetric information 2.2.1 Basic types of asymmetric information in financial relationships 2.2.2 Moral hazard problems in detail 2.3 Agency cost as a consequence to rational expectation in the context of moral hazard problems 2.3.1 Basic idea behind agency costs 2.3.2 Computation of agency costs for selected moral hazard problems with the help of examples 2.3.3 Summary on agency costs 3 Hedging 3.1 General definition of risk 3.2 Types of risk to which companies are exposed 3.3 Basics on the implementation of static hedging 3.3.1 Perfect hedge 3.3.2 Cross hedge 3.3.3 Hedging under consideration of the natural hedge 3.4 Dynamic hedging 3.4.1 Cash flow hedge or hedging the value of a spot position at a specific date 3.4.2 Hedging of value fluctuations 3.5 Production and hedging

	3.6 Hedging and financial accounting 3.6.1 IFRS 9 3.6.2 German Accounting Law Modernization Act (BilMoG) 4 Corporate finance
Selected References	– Lecture notes – DeAngelo, H. (1981): "Competition and Unanimity", The American Economic Review 71 (1981), pp 18-27. – Barnea, A., Haugen, R. A., and Senbet, L. W. (1985): "Agency Problems and Financial Contracting", Englewood Cliffs 1985. – Hull, J. C. (2014): "Options, Futures, and Other Derivatives", 9th edition, Upper Saddle River 2014. – Stulz, R. M. (2003): "Risk Management & Derivatives", Mason 2003.