

**Bauer College of Business
Corporate Finance
FINA4332 sections 476 478 479
Spring 2005**

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Location
Section 476: 140-MH
Section 478: 130-MH
Section 479: 140-MH

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Course Syllabus

Course Description

This is a first course in corporate finance. The course is designed to introduce students to the concepts and techniques necessary to analyze and implement optimal investment decisions. The course covers the effect of time and uncertainty on decision making of individuals and corporations. Topics include basic discounting techniques, stock and bond valuation, capital budgeting under certainty and uncertainty, asset pricing models and efficient capital markets.

Online Material

Class material will be posted on WebCTVista. On the class web page students can find homework assignments (and due dates), class notes, handouts, general information about the class and announcements. It is the student's responsibility to visit the web site once a week.

Office Hours

I will hold office hours in office 210E every Wednesday during the hours 9:00-10:00.
The TA will hold office hours in office 210A every Monday during the hours 10:00-11:00 and every Thursday during the hours 2:00-3:00.

Course Requirements (see Course Outline for detailed assignments)

Prerequisites

The prerequisites for the course are: junior standing, ECON 2304, FINA 3332 and DISC 3331.

Readings

The text book for the course is *Principles of Corporate Finance*, 7th or 6th edition, by Richard A. Brealey and Stewart C. Myers, (hereafter B&M).

Most of the material covered in class can be found in the text book. The text book also contains numerous real life examples, exercise problems and additional topics in corporate finance. Students might find the book useful for better understanding the material covered in class but also for in-depth coverage of other related topics. The text book is a good investment for all students that seek to work in the area of finance and have an interest in corporate finance. The text book is reserved in the library.

Homework

Homework assignments are designed to practice the concepts that are covered in the lectures and in the readings. They also offer a chance for you to apply these concepts to more complicated situations than are appropriate for the lectures. You may work on the homework assignments in groups of up to four people. Homework assignments will account for 15% of the final grade. Homework is due at the *beginning* of class on the due date. Remember to visit the class web page to be current on the due dates. *Late homework will not be accepted.* If you are unable to attend class, you may submit homework via email any time prior to the beginning of class or you can place it in my mailbox. My mailbox is located in the Finance Department near my office 210E. If you send homework by email remember to write the homework and section numbers in the subject line.

Midterm Exams

There will be two (compulsory) midterm exams. The midterms will be held in class. The midterms are with open notes. You may use a calculator. The specific dates will be provided later. The use of Excel spread sheets is not required in order to solve exams and the use of laptop computers is prohibited during exams.

Grades

The course grade will be based on homework assignments and midterm exams as follows – 15% homework assignments, 35% first midterm, 50% second midterm.

Course Outline

This is an *approximate* outline of the material that will be covered in class. The actual material covered in class might change from year to year and the class might cover additional topics or might not cover all the material listed below.

Introduction to Finance

Topics: Goals in managing the firm. Asset valuation with known cash flows – present value and future value.

Reading: B&M Chapters 1-3.

More on Net Present Value

Topics: Compound interest rates. After tax discount rates. Real versus nominal interest rates.

Reading: B&M Chapter 3.

Bond Valuation

Topics: Term structure of interest rates. Forward rates and forward loans.

Reading: B&M Chapter 24.

Stock Valuation

Topics: The Gordon Growth model. Economic Value Added.

Reading: B&M Chapter 4.

Capital Budgeting

Topics: Capital budgeting with known cash flows. Determining cash flows. NPV and alternatives. Equivalent annual cost. Project Interactions.

Reading: B&M Chapter 5 & 6.

Introduction to Risk and Return

Topics: Definition of risk.

Reading: B&M Chapter 7.

Risk and Return

Topics: What is the price of risk? The Capital Asset Pricing Model (CAPM).

Reading: B&M Chapter 8.

Capital Budgeting Under Uncertainty and taxes

Topics: Estimating Project Beta's. Leverage.

Reading: B&M Chapter 9-1 to 9-5.

The Dividend Controversy

Topics: Dividends and share repurchase. Lintner's model. The information content of payout policy.

Reading: B&M Chapter 16.

Debt Policy

Topics: Modigliani Miller theorem. Costs of financial distress.

Reading: B&M Chapter 17-18.