Syllabus (Spring 2009)

FINA 4330: Corporate Finance

NOTICE: This is a preliminary draft of the syllabus. An updated version will be distributed in the first class.

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This is the syllabus for this course. This page can be found through the University of Houston's Vista/WebCT at http://www.uh.edu/webct. It may be easier to bookmark this page directly. In fact, you should use this website, only, since I do not plan on using WebCT/Vista at all. A PDF version of this web page can be downloaded here.

Course Overview:

Using your knowledge of valuation techniques developed in the core class, we will analyze how financial and other decisions within firms create or destroy value. This will allow you to develop a deeper understanding of (1) valuation and (2) what determines the cost of capital in a firm.

Specific issues covered include:

- Valuing businesses while building in capital structure effects,
- Capital structure and corporate strategy,
- Costs of financial distress and conflicts between different investor groups,
- Effects of financing decisions on managerial incentives,
- Issuing securities,
- Dividends and share repurchases,
Options basics and applications.

Throughout the course, our primary viewpoint is that of a corporate financial manager; however, since corporations get funds from investors, we will often look at issues from an investor’s point of view and then examine the implications for managers.

You will also be surprised to learn that while we deal with numbers a lot, I will rarely insist that one particular answer or point of view is "correct", and all others are "wrong". You will learn to use tools that improve your decisions, but they do not automatically or mechanically produce easy answers. Experience and common sense will remain essential, and these tools will allow you to make better-informed decisions (and to avoid certain types of mistakes).

This course is essential for anyone planning a career in finance, whether at a corporation or a financial institution. It is recommended for all business students, since any decision made in corporations may add or destroy value, and this course will improve your ability to judge whether value is being added or not.

Course Outline

The course outline is only tentative; depending on the progress that we make, it may change.

<table>
<thead>
<tr>
<th>Date</th>
<th>Class</th>
<th>Topics covered and to be prepared (numbers refer to sections in the class notes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 21, 2009</td>
<td>Class 1</td>
<td>Overview; review of capital budgeting, CAPM, etc.</td>
</tr>
<tr>
<td>Jan. 26, 2009</td>
<td>Class 2</td>
<td>Capital structure: introduction</td>
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<tr>
<td>Jan. 28, 2009</td>
<td>Class 3</td>
<td>[Team lists due!] Weighted average cost of capital (WACC)</td>
</tr>
<tr>
<td>Feb. 2, 2009</td>
<td>Class 4</td>
<td>Weighted average cost of capital (WACC)</td>
</tr>
<tr>
<td>Feb. 4, 2009</td>
<td>Class 5</td>
<td>[Teams must choose a firm!] Valuation: adjusted present value (APV)</td>
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<tr>
<td>Feb. 9, 2009</td>
<td>Class 6</td>
<td>Valuation: adjusted present value (APV)</td>
</tr>
<tr>
<td>Feb. 11, 2009</td>
<td>Class 7</td>
<td>Valuation: adjusted present value (APV)</td>
</tr>
<tr>
<td>Feb. 16, 2009</td>
<td>Class 8</td>
<td>Valuation: adjusted present value (APV)</td>
</tr>
<tr>
<td>Feb. 18, 2009</td>
<td>Class 9</td>
<td>Financial distress</td>
</tr>
<tr>
<td>Feb. 23, 2009</td>
<td>Class 10</td>
<td>Quiz 1: Valuation, WACC, APV</td>
</tr>
<tr>
<td>Feb. 25, 2009</td>
<td>Class 11</td>
<td>Financial distress</td>
</tr>
<tr>
<td>Mar. 2, 2009</td>
<td>Class 12</td>
<td>Issuing securities</td>
</tr>
<tr>
<td>Mar. 4, 2009</td>
<td>Class 13</td>
<td>Issuing securities</td>
</tr>
<tr>
<td>Mar. 9, 2009</td>
<td>Class 14</td>
<td>Capital structure</td>
</tr>
<tr>
<td>Mar. 11, 2009</td>
<td>Class 15</td>
<td>Capital structure</td>
</tr>
<tr>
<td>Mar. 16, 2009</td>
<td>Class 16</td>
<td>Payout policy: dividends and stock repurchases</td>
</tr>
<tr>
<td>Mar. 18, 2009</td>
<td></td>
<td>No Class: Spring Break</td>
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<tr>
<td>Mar. 23, 2009</td>
<td></td>
<td>No Class: Spring Break</td>
</tr>
<tr>
<td>Mar. 25, 2009</td>
<td>Class 17</td>
<td>Payout policy: dividends and stock repurchases</td>
</tr>
<tr>
<td>Mar. 30, 2009</td>
<td>Class 18</td>
<td>Options — basics, valuation</td>
</tr>
<tr>
<td>Apr. 1, 2009</td>
<td>Class 19</td>
<td>Options — basics, valuation</td>
</tr>
<tr>
<td>Apr. 6, 2009</td>
<td>Class 20</td>
<td>Quiz 2: Capital Structure, payout policy</td>
</tr>
<tr>
<td>Apr. 8, 2009</td>
<td>Class 21</td>
<td>Investment projects as options</td>
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</tbody>
</table>
Prerequisites:

Prerequisites: junior standing, FINA 3332 or equivalent, STAT 3331, and ECON 2304. If you do not satisfy these prerequisites you MUST come to see me or you will be administratively dropped from the course.

Having taken these courses, you are expected to have practiced "time value of money" calculations: discounting of future cash flows, given a rate of return; calculating the present value of annuities and perpetuities; some familiarity with the CAPM and betas.

I also expect you to have some basic Accounting knowledge. If you don't know what assets, liabilities, EBITDA, EBIT, Net Income, Operating Cash Flow, etc. mean, you definitely need to improve your knowledge. You may want to use the two Merrill Lynch brochures on understanding financial statements that I mention (with web-link) on the "materials" web page (they are well written, and free!).

Maths: I will assume that you have a working knowledge in basic algebra and statistics. The level of mathematics that you will need for this course is not very high, but if you are not comfortable working with equations with “x” and “y”, you may be at a disadvantage. Working in the finance field requires quantitative skills, and the courses that follow this one will not be easier.

Computer skills: This course involves some number-crunching, and spreadsheet software (Microsoft Excel, Lotus 1-2-3, StarOffice Calc, Google Spreadsheets, etc.) will come in extremely handy. In fact, you will be at a considerable disadvantage when working on some of the assignments, if you are not familiar with spreadsheet software. If you do not regularly use spreadsheet software, this is the ideal time to learn how to use it.

Equipment:

You will need a calculator in the exams, and you will sometimes find it useful in class. A basic scientific calculator that does powers is fine. If you have a financial calculator, you can use it in this class. Two remarks on quizzes. First, no computers are allowed. Second, you may use a financial calculator, but you must nevertheless convince me that you know what you are doing: just writing down a result or the variables you keyed in is not convincing; you should write down both the correct formula and the correct result. If your answer seems unconvincing, you won't get full credit, even if the numbers are right.

I assume that you have access to a computer and spreadsheet software. I also assume that you have access to the web, and that you regularly check your email.

Readings and other materials
The **required textbook** for this course is

**Jonathan Berk and Peter DeMarzo**  
*Corporate Finance*  
Addison Wesley  
First edition, most recent print  
ISBN: 0135056551  
ISBN 13: 9780135056554  
*(Click here to check out prices)*

This is a new textbook, and because of teething problems on the publishers' side, it is important to get the most recent print; the earlier prints of the first edition contained many errors (in particular the very first print, ISBN: 0321415116; ISBN 13: 9780321415110; make sure you do not buy this edition in the second-hand market).

There is a website to accompany this textbook, [http://www.MyFinanceLab.com](http://www.MyFinanceLab.com). You will have to register to use it, for which (I believe) you will need some sort of code that comes with the textbook. I will assign homework that needs to be solved online at this website.

Additional material will be posted on the [Materials page](#).

**Accessibility Statement:**

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner. &

**Classes**

<table>
<thead>
<tr>
<th>Class</th>
<th>When</th>
<th>Where</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 01, Class #16656</td>
<td>Monday &amp; Wednesday, 1:00PM - 2:30PM</td>
<td>MH 118</td>
</tr>
<tr>
<td>Section 05, Class #27752</td>
<td>Monday &amp; Wednesday, 2:30PM - 4:00PM</td>
<td>MH 118</td>
</tr>
</tbody>
</table>

Class participation is mandatory. I expect students to come to class prepared for active participation, which includes reading the chapters in the textbook that explain the concepts that we will cover in class --- before coming to class!

To make the most efficient use of limited class time, students who miss a class or are late are responsible **themselves** for getting notes, assignments, and announcements from their classmates. Handouts may be obtained from me outside of class, or you can download them from the [Materials page](#).

**Classroom Etiquette**

- Please remember to turn off your cell phones, in particular during exams.
- If you bring your notebook into the classroom, please act in a mature fashion: no emailing, surfing of web pages, etc., i.e., activities that distract you and (much more importantly) other students sitting near you. As I explain below, there is a participation component in the overall course grade --- violating this no-internet rule will **seriously** reduce your participation score.

**News**
If something should come up (e.g. schedule changes, corrections of materials, announcements, etc.) I will let you know by email, and I will post messages on the News page.

**Getting in touch with me**

The easiest way will be to use email: povel@uh.edu. My office phone number is (713) 743-4759. My office is Melcher Hall 230D.

Scheduled office hours: Tuesday, 1:30-3:00pm. You can also try to get in touch at other times, but please do not come to my office right before class, when I am busy preparing for class. It is important that you contact me immediately if you are uncertain or worried about your performance: I may be able to give you feedback on your performance, what you can improve, etc. The sooner problems are identified, the better.

**Teaching Assistant**

Teaching Assistant: Raymond Foo. He will assist me in grading assignments and exams, and he may hold review sessions during the semester. He will not hold office hours: if you have problems or questions, discuss them with your teammates (see below), or get in touch with me.

**Homework assignments**

There will be several homework assignments. Assignments will be posted on the course web page at least one week before they are due. Some or part of these assignments will be online assignments, to be completed at the MyFinanceLab.com website. Some or part of these assignments will require written answers that must be handed in at the beginning of class on the due date. If you plan not to come to class then leave them in my mailbox before the class. With all assignments, I will not accept late solutions, and I will not accept emailed or faxed solutions. In order to give you a break, I will drop one assignment from grading considerations. Use this option carefully, for real emergencies. You are allowed to discuss the assignment with your colleagues. However, everyone must turn in their own work. Just copying someone else's solution will be regarded as academic misconduct by all parties involved; the assignments will automatically receive the lowest score possible, and I may start procedures as described in the UH Student Handbook.

There will be several team projects; see below.

**Team work**

Within the first two weeks, I will expect you to form teams of 3-4 members. You will work as a team on certain assignments. Your team can also meet to prepare for exams together, or to discuss material that we covered in class.

You must give me a list of your group members in the second week of class; groups may not be changed without my permission.

For team lists please click [here](#).

One of the team assignments is that you need to choose a publicly traded firm (a firm listed on one of the major exchanges, like the NYSE or Nasdaq) that they would like to track during the semester. I will expect you to be informed about this firm as we discuss various topics, e.g., capital structure (what leverage does it have? types of debt? etc.); payout policy (dividends? changes in dividends? share repurchases? etc.); etc. At the end of the course, I expect you to prepare a short valuation of your firms, using the tools that we discussed in class. There will be short presentations in the last week, where each team is given time to present the firm, and its valuation. Other students may ask questions about the techniques and assumptions used.
More information on this will be made available as we progress through the course. I expect you to choose your firm before the start of the third week.

There will also be team homework assignments that are a little more involved than individual homework. The details of the projects will be posted on the course web page. No late projects will be accepted. The project report is expected to be professional work. All analysis must be explained. Spreadsheets must be clearly labeled and be self-explanatory as much as possible. Text should be error free. The project reports should be submitted as a hard copy and also in electronic form.

**Exams**

There will be three quizzes.

The quizzes are closed-book / closed notes. However, you are allowed to bring a "cheat-sheet" with notes, written on one side of one sheet (8.5"x11") for the first two quizzes and both sides of one sheet (8.5"x11") for the third quiz. I regard these "cheat-sheets" as helpful tools for studying: You should carefully put together material that you feel will help you in the quizzes; that will help you structure the material, recall essential formulas and procedures, etc. You should start working on your "cheat-sheet" from the first class, and you should plan to re-write it often.

You should bring a calculator. If you decide to use a financial calculator, make sure you know how to operate it; see above, under Equipment.

**Grading**

Your performance (both individually and within your team) will add up to an overall score, which will then be translated into a course grade. I grade on a curve. Your overall score is computed as follows:

- 60% Three quizzes
- 15% Individual homework
- 15% Team projects
- 10% Participation

The participation evaluation will include a peer-assessment on contributions within case teams: each member will grade the other members' performance at the end of the term.

Questions about grading: Requests for a regrade must be made in writing within two weeks of the time the graded work is returned, and must clearly and specifically explain where and why you think you were graded incorrectly.

**Academic Misconduct**

Academic Honesty: The University of Houston’s Academic Honesty Policy is strictly enforced by the Bauer College and by this professor. A discussion of the policy is included in the UH Student Handbook, [http://www.uh.edu/dos/publications/handbook.php](http://www.uh.edu/dos/publications/handbook.php). It is your responsibility to fully understand and comply with all principles contained within this Handbook. Please make sure you understand this policy and in particular, you understand the meaning of plagiarism.

Last update: December 9, 2008