Finance 512
Spring, 2008.
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Required Text

Modern Financial Management (Eighth Edition), by Ross, Westerfield Jaffe and Jordan), McGraw Hill.

Course Objectives

The purpose of this course is to give the students an exposure to key *conceptual tools* in corporate finance. Topics covered include capital budgeting decisions and project analysis, finding the cost of capital, valuation of financial assets, how capital structure decisions affect firm value, valuation of companies using DCF and other techniques, and M&A (merger and acquisition) decisions. Students interested in building further on, and especially to see more applications of, the tools developed here are encouraged to take elective courses on offer such as Strategic Value Creation.

Course Web Site

Please check the web site regularly for announcements. Class lecture notes, solutions to exercises, and additional helpful reading materials will be posted there.

You can post questions on the discussion board that we will answer. We will also try to set up a chatroom where you can discuss issues with your classmates (but I will not read or monitor). You are also welcome to make an appointment with me if you need to discuss any issues.

Course Structure and Pedagogy

Please try to read through my "Notes to the Textbook". In these notes, I have extracted the essential concepts from the relevant chapters in the text book and presented them in a way that should be easy to follow. I recommend that you try to go through these notes to the extent possible.

My own lectures will follow roughly the same sequence of topics as in these notes (and the relevant chapters from the textbook). However, sometimes, the emphasis will be somewhat different. The lecture notes (the PowerPoint slides) are going to be printed out and made available to you.

Chapters in the textbook (Ross, Westerfield, Jaffe and Jordan)), supplemented in many instances with class lectures, will provide essential background for the concepts. Please see the course outline and timetable below for the appropriate chapter references.

Groups

You are required to form groups in the first day of class. Each group will consist of 7 members. The names of group members must be handed in by the end of the first day. Needless to say, group members should sit together so as to facilitate teamwork.

Laptop Computers

Especially on the days a case is discussed, and on the days an in-class group exercise is scheduled ((please see the course outline), it will be helpful if you bring your laptop computer to class. You are encouraged to download all excel spreadsheets and PowerPoint slides posted on the course website into your laptops.

Grading

The course grade will be determined on the basis of a final examination (65%) and four in-class group exercises (35%). The group exercise grade will be determined by the group performance, plus an adjustment based on the evaluation of your contribution by other group members. The rules of the peer evaluation, and how the group-exercise grade will be determined, are as follows.

For the in-class group exercises, all group members will receive the same Basic Grade to begin with. The Basic Grade will then be adjusted according to a peer evaluation scheme.

Suppose your group consists of 7 members. Each member of your group will be asked to rank every other member on a scale of 1 to 6, indicating their evaluation of each member's relative contribution to the group's efforts (excluding himself/herself). A rank of 6 is the best possible, and 1 is the lowest possible. The average rank of each group member will then be computed. Suppose this average rank for an individual is x (a number between 1 and 6). Then the eventual Group Project Grade for that individual will be determined by the following formula:

$$\text{Group Project Grade} = (\text{Basic Grade}) + (0.10)\,(\text{Basic Grade}) \times (x - 3.5)/2.5$$

This implies a 10% upward adjustment for a group member with an average rank of 6 (rated highest by all), a downward adjustment of 10% for a player ranked 1 (lowest) by all, and no adjustment for a player with the average rank of 3.5. The formula will obe changed in a consistent manner for groups with less than or more than 7 members in case that becomes necessary.

The peer evaluation will be confidential, and will be done at the time of the final examination. Note that you will **not** be allowed to give the same rank to any two people in your group. If you do, or if you do not rank someone in your group, those individuals will be assigned a rank of 3.5 from you. Also, as a penalty to you, your average rank will be lowered to 1.

Make-ups

Make-ups are only possible for medical reasons or unavoidable business commitments. In the former case, you will need to inform me or the MBA office (or the TA) ahead of time and subsequently provide a doctor's certificate. In the latter case, you will need to provide a letter from your supervisor. I will reserve the right to decide whether you could have avoided missing the exercise or the exam.

Or group exercises, you will be allowed – subject to the above requirements – to at most miss one group exercise. You will get the basic group score for the exercise that you missed. If you miss a second one, you will get zero for that exercise. However, please realize that your group members may not be forgiving if you miss an exercise and this may affect your peer evaluation score.

For the final exam, again subject to the above conditions, I will offer a make-up exam approximately two weeks after the scheduled final exam. *This is the only make-up that will be offered.*

Course Outline

Day 1

Hour 1	Time-Value of Money
Hour 2	(a) Explaining PV formulae (b) applications of PV
Hour 3	Group exercise 1

Day 2

Hour 1	(a) Discounting risky cash flows (b) bond prices and yields (c) dividend growth model (d) concept of returns on a financial asset
Hour 2	(a) Internal Return on a project (IRR) (b) real and nominal returns
Hour 3	(a) NPV vs. IRR (b) Other capital budgeting concepts (ARR, Payback)

Reminder to students: Please read the Lockheed Tri-Star, Super Project case, and Beta Management Company case.

Day 3

Hour 1	(a) NPV and stock price (a) Lockheed Tri-Star case (b)
Hour 2	Some special NPV examples (c) Super Project Cash Flows
Hour 3	Group Exercise 2

Reminder to students: Please read the Beta Management Company case.

Day 4

Hour 1	Super Project's NPV in real and nominal terms.
Hour 2	Risk and Return, CAPM and SML review

Hour 3	Beta Management Company Case

Reminder to students: Please read the Marriott Case

Day 5

Hour 1	(a) Modigliani and Miller Theorem (b) Debt and P/E ratio
Hour 2	(a) Debt and Taxes, (b) WACC
Hour 3	Group Exercise 3 (Marriott Case)

Day 6

Hour 1	Costs of Debt: (a) Financial Distress Costs (b) Debt Overhang (c) Risk-Shifting
Hour 2	Valuation: APV method and WACC method
Hour 3	Merger Valuation

Day 7

Hour 1	Issuing securities: IPO, SEO (public offers, rights issues) and Debt
Hour 2	“
Hour 3	Group Exercise 4

Day 8 In-Class Final Exam