

Corporate Finance – 6F:117

Spring 2009

COURSE INFORMATION

Instructor: Burcu Esmer
Email: burcu-esmer@uiowa.edu
Office: S319
Office Phone: (319) 335-0974
Office Hours: Friday 1:00 - 3:00 pm, and by appointment
Lectures: 5:30 - 8:00 PM Wednesday S207PBB
Course Website: <http://icon.uiowa.edu/>

REQUIRED MATERIALS

Calculator: A financial calculator such as the Texas Instruments BAII Plus is required. If you use another calculator be sure it can calculate IRR (Internal Rate of Return). If you plan on taking the CFA exams use the Texas Instruments BAII Plus for this course (or HP12C or HP12c Platinum). *In-class examples will be done on a Texas Instruments BA II Plus model. You will not be allowed to use a programmable calculator during exams.* Please do bring your calculators to class every time.

RECOMMENDED READING

Textbook: Brealey, Myers, and Allen, Principles of Corporate Finance, 9th edition, c. 2008, McGraw-Hill/Irwin, New York, NY

Financial News: Financial publications like *The Wall Street Journal*, business magazines such as *Business Week*, *Economist*, *Forbes*, *Fortune*, *Money*, financial TV stations like CNBC, and financial websites such as finance.yahoo.com are valuable resources for business students. There are several benefits to keeping up with current events in business: increased understanding of material covered in class, advantages in future jobs and interviews, and simply learning the language and terminology of business.

COURSE OBJECTIVES

This course will focus on preparing students to make the three main decisions in corporate finance: the capital budgeting decision, the financing decision, and the payout decision.

The objective of the course is to provide an overview of the basic concepts and principle of corporate finance. Topics to be covered include the time value of money, the tradeoff between risk and return, valuation techniques, capital budgeting, capital structure, and the role of financial markets. I will emphasize both the mathematical “tools” of financial decision making as well as the reasoning and concepts in appropriately applying these tools.

We will maintain a balance between theory and application while exploring corporate finance topics. I will bring in several examples from publicly traded companies to illustrate the topics covered in lectures. Using corporate finance theory as the baseline, we can analyze real-world deviations and the implications of imperfections. Additionally, by completing the assigned case, students will gain experience in making the decisions required of financial managers and analysts. The goal is to enable you to think through and come up with solutions to complex business problems from a finance perspective.

Class sessions will typically include class discussion and lecture with some practice examples and spreadsheet modeling. Live company examples will be used to illustrate ideas when possible.

ASSIGNMENTS

Homeworks

There will be three homework assignments given this semester. The first homework assignment will primarily be a review of topics covered in the Introduction to Financial Management course, including time value of money, basic asset valuation, and capital budgeting using the discounted cash flows method. The second homework assignment will be about options. The third homework assignment will be about capital structure and payout policy.

Assignments are due the beginning of class on the due date. If you miss a deadline and must submit your work late, you will need to contact me for instructions regarding how to submit your late assignment. In the event that you turn in your homework late, the following penalties will apply: a 20% reduction from full credit per day the assignment is late after the due date, with a 10% penalty applying on the due date itself if it is turned in after the specified deadline. Please note that claims of technical problems or other last-minute excuses will not be accepted. To be fair to all students, requests for deadline extensions and “extra credit” assignments will be declined.

Case Study

There will be three case studies assigned throughout the course. They will be completed in groups of three students. The case study will focus on relating the material covered in lectures to actual corporations. Consideration for case grades will include completeness, accuracy, quality of analysis, and professional appearance. Cases not turned in by the beginning of class on the due date will not be accepted.

Spreadsheets containing examples of calculations will be on ICON. These may be helpful for completing the case assignment as well as getting a better idea about the application of ideas presented in lecture.

Exams

The midterm exam will be given at the beginning of class on the date scheduled, and will last approximately one and a half hour. The final exam will be cumulative. Exams may be composed of multiple choice, true-false, short answer, essay, and work-out problems. Both exams are closed-book, closed-notes. A formula sheet will be provided.

Make-up policy: Generally, make-up exams will not be allowed. Foreseeable excuses (such as athletic travel) need to be documented no less than two weeks in

advance, or the student risks a 10% loss of exam points. The only acceptable unforeseen excuses would be death or serious illness in the family, or serious student illness. In such cases, the student must contact me as soon as possible, by phone or email. I will require students to provide sufficient documentation, in person to me, to justify a delay in taking an exam. A note stating that a student visited the health center on the day of the exam does not necessarily provide sufficient documentation. If you do not have a valid excuse for missing an exam, it will count as a zero. In the case that you are allowed to take a makeup exam, its content might not correspond directly to the content of the main exams given; the curve for your registered section would still be applicable.

PREPARATION

Textbook	Read the assigned chapter(s) prior to class. Sometimes the book will have a different point of view from that presented in class.
Lectures	Lecture power points will be posted before class. Some students may find it helpful to print off the power points in notes form prior to class.
Practice Problems	I will post practice problems and answers for some of the topics we cover. The completion of these problems is not required, but several of the problems are good illustrations of what we will discuss in class and it would, at the very least, be a good idea to review the questions and answers prior to the exams.

GRADING

<u>Assignment</u>	<u>Points</u>	
Homework 1	5	
Homework 2	10	
Homework 3	10	
Case Study I	5	
Case Study II	5	
Case Study III	10	
Midterm	25	
<u>Final</u>	<u>30</u>	
Total	100	
<u>Participation/Attendance</u>	<u>5</u>	<i>(extra credit)</i>

The grade distribution in the course will follow the distribution required by the finance department for required undergraduate courses:

A	25%
B	45%
C	25%
D or F	5%

I reserve the right to alter these percentages up or down depending on the performance of the class as a whole.

ACADEMIC ACCOMMODATION

If you have a disability that may require some modification of seating, testing, or any other class requirement, please let me know as soon as possible so that appropriate arrangements can be made. Similarly if you have any emergency medical information about which I should know, or if you need special arrangements in the event the building must be evacuated, please let me know. Please see me after class hours or during my scheduled office hours or schedule an appointment. I would also remind you that the Office of Student Disability Services is available to assist you.

ACADEMIC MISCONDUCT

It is my sincere hope that no student in this class submits work which is not his or her own. However, it seems prudent to clarify in advance the policy on cheating. If I determine that any assignment was not written solely by the student whose identification number appears on the project, the student will receive a zero (0) for the project and may receive an "F" for the class.

All incidents of cheating will be reported to the appropriate Deans (e.g., the Associate Dean for the Undergraduate Program in the College of Business or Liberal Arts and Sciences) and the student may be placed on disciplinary probation for the remainder of his or her undergraduate work at the University of Iowa.

In general, the decision of the Professor may be appealed to the College of Business' Judicial Board, then to the Associate Dean for the Undergraduate Program. The Honor Code for the Tippie College of Business will determine the appropriate appeal process. The Honor Code may be found at <http://www.biz.uiowa.edu/upo/honorcode.html>.

SEXUAL HARASSMENT

The Tippie College of Business and the University of Iowa are committed to providing students with an environment free from sexual harassment. If you feel that you are being or have been harassed or you are not sure what constitutes sexual harassment, we encourage you to visit the University website, <http://www.sexualharassment.uiowa.edu/index.php>, and to seek assistance from department chairs, the Dean's Office, the University Ombuds Office, or the Office of Equal Opportunity and Diversity.

CLASS LIST

In order to participate in this class, it may be necessary to reveal to other students the names of students who are enrolled in this course. If you do not want your name revealed to other students enrolled in this course, please contact me in writing by the end of the first week of classes.

SCHEDULE

The schedule is subject to change depending on the pace of the class

Week	Date	Topic	Relevant Chapters	Assignments
1	January 21	Introduction to Course Overview of Corporate Finance		
2	January 28	Time Value of Money	1,2,3,4	
3	February 4	NPV and IRR Capital Budgeting – DCF Method	6	
4	February 11	Risk and Return Theories of Risk/Return Tradeoff	8,9	HW 1 Due
5	February 18	Capital Budgeting and Risk Cost of Capital	10	
6	February 25	Market Efficiency Implications for Financing Decisions	14	Case I Due
7	March 4	MIDTERM EXAM		Midterm
8	March 11	Introduction to Options	11,21,22	Case II Due
9	March 18	University Holiday		
10	March 25	Real Options	23	
11	April 1	Corporate Financing Overview	15,16	HW 2 Due
12	April 8	Capital Structure Theory	18	
13	April 15	Capital Structure Theory Capital Structure in Practice	19	
14	April 22	Weighted Average Cost of Capital Capital Structure Analysis		
15	April 29	Payout Policy Dividends & Share Repurchases	17	HW 3 Due
16	May 6	Payout Policy Theory Analyzing Payout Policy		Case Study III Due
		FINAL EXAM		