

## **06F:117 Corporate Finance Fall 2009**

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### **Course Description:**

This course provides an in-depth treatment of corporate finance concepts for all finance majors, with the purpose of furthering students' understanding of major corporate financial decisions. These decisions include choosing between competing investment opportunities, measuring risk and return, how to value a business, how much debt to issue, how much equity to issue, what level of dividend to payout, and incentive structure for managers, and so on. The course starts with a discussion on corporate financial goals and corporate governance issues. It then proceeds to cover topics on corporate investment decisions, corporate valuation, and capital structure.

An important objective of this course is to help you acquire analytical and operational skills for corporate financial management. You will find some of these skills immediately useful when starting your first job after college, either working for an industrial or commercial company, or as an analyst for a commercial bank, investment bank, or investment management firm. In addition, the course helps you to develop general perspectives for understanding and analyzing financial events taking place in the business world.

The format of the course is a combination of lectures, discussions, and student presentations.

### **Prerequisites:**

Prerequisite: 06F:100 Introductory Financial Management  
Or equivalent courses with instructor's approval

### **Textbook, Case Materials, and the ICON course site:**

The main textbook is Corporate Finance, 8th Edition, authored by Ross, Westerfield, and Jaffee, and published by Irwin/McGraw-Hill

We will use two cases from Harvard Business School Publishing. You can find information about these cases at the following website (you will have to register for access): <http://cb.hbsp.harvard.edu/cb/access/4448759>

Handouts and other reading materials will be available at the ICON course site (login at: <http://icon.uiowa.edu>). Course-related announcements will also be posted at the ICON site.

### **Teamwork:**

This course involves substantial and team work, including case assignments and term projects. Unless otherwise approved by the instructor, each team should consist of exactly three members. Teamwork is an important part of your experience as finance major at the Tippie College, and accounts for an important part of your grade for this course. Make sure you find teammates who can work together with you in a friendly, co-operative, and efficient way. Discuss with the instructor when you need assistance finding teammates, changing teams, or resolving other team-related issues.

### **Cases, Term Project, and Presentations:**

There are three case assignments. Detailed information about the cases can be found at the ICON course site. Each team is required to perform required analysis and submit a written report for each case.

The term project requires each team to identify a recent corporate event, analyze the rationale for corporate decisions, and evaluate the event's impact on corporate value and shareholder value. The term project will start during the later part of the semester and detailed instructions will be available then. At the end of the semester, each team will submit a written project report.

In addition, each team is required to make a presentation once to the class, on either a case or the term project. The presentation schedule is set by the instructor, but you are welcome to indicate your preference.

To ensure the quality of teamwork, a survey will be conducted after each case and after the term project. Grades will be adjusted if survey feedback suggests significantly unbalanced participation or contribution by individual members.

### **Self-study:**

Several chapters of the textbook will be designated for self-study. These chapters deal with relatively simple conceptual issues or background knowledge. They won't be discussed during class lectures but are nonetheless required for reading and will be covered in the quizzes and exams.

There is no graded homework assignment. But it is recommended that you work on the after-chapter problems of the textbook. You will find such exercises useful for improving your understanding of the course content and for exam purpose. Answer keys to after-chapter problems will be made available.

### **Exams and Quizzes:**

There will be two exams. They are non-cumulative and are in close-book format. You will need a calculator (but not necessarily a financial calculator). You can also bring a “cheat sheet” (size 8.5"x11") with formula. However, you cannot put specific problems or solutions/answers on it. Cheat sheets should be submitted together with your exams.

There will be also three short in-class quizzes. They mainly involve conceptual questions and simple calculations. Quizzes are also in close-book format, with the same permissions and requirements for calculator and cheat sheet as the exams.

Tentative dates for quizzes and exams are listed in the attached “class schedule”.

### **Class Preparation and Participation:**

You will find class time more enjoyable if you come prepared by reading the textbook chapters and assigned materials prior to class, and by actively participation in discussions. Class attendance is required. I reserve the right to reduce the grades of those who miss classes.

### **Grading:**

|                   |     |
|-------------------|-----|
| Exams (30% each)  | 60% |
| Quizzes (4% each) | 12% |
| Cases (5% each)   | 15% |
| Term Project      | 10% |
| Presentations     | 3%  |

The Finance Department has maintained the following grade distribution for required undergraduate courses: 25% A, 45% B, 25% C, and 5% for D or below. I may adjust the distribution for this course at the end of the semester based on overall class performance. Multiple sections of the course will be combined when determining the grades.

### **Policies:**

**Disability 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 *at the beginning of the semester* 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. The Office of Student Disability Services is also available to assist you.

**Makeup Exams:** Make-up exams (or quizzes) are only available to those who cannot take the regular exams due to severe illness, mandatory religious observations, or University-related trips and activities. Requests for make-up exams should be made to the instructor with proper documentation and be approved by the instructor before the exams. If you

miss an exam/quiz without prior approval, you will automatically receive a grade of “0” for that exam/quiz and will not be given a chance to take the make-up.

**Extra Credits:** To be fair to every student, I will not grant any “extra credit” assignments to any individual.

**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 Associate Dean of the Tippie College of Business 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.

**Sexual Harassment:** The Tippie College of Business and 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, please visit the University website, <http://www.sexualharassment.uiowa.edu/index.php>. You are encouraged to seek assistance from department chairs, the Dean's Office, the University Ombuds Office, or the Office of Equal Opportunity and Diversity.

**Grievance:** Student concerns regarding this course should first be discussed with me, the faculty member teaching this course. If we can't resolve the complaint, you may contact the DEO of the Finance Department, Paul Weller (Tel: 319-335-1017, Email: paul-weller@uiowa.edu). If you cannot resolve the complaint by speaking with the DEO, you may contact the Associate Dean of the Undergraduate Program, Lon Moeller, 319-335-0924, lon-moeller@uiowa.edu.

The course policies are governed by the Henry B. Tippie College of Business.

**Class Schedule** (tentative and subject to change; August 17, 2009):

| <u>Date</u>  | <u>Topics</u>  | <u>Covered chapters</u> | <u>Self-study chapters</u> |
|--------------|--|-------------------------|----------------------------|
| Aug. 25, T   | Course introduction  |                         |                            |
| Aug. 27, Th  | Corporate objectives and corporate governance                            | 1                       | 2                          |
| Sept. 1, T   | Investment decisions (1): NPV, IRR, and other investment rules           | 6                       | 3                          |
| Sept 3, Th   | Investment decisions (2): forecasting cash flows                         | 7                       | 4                          |
| Sept. 8, T   | Investment decisions (3): examples                                       | 7                       |                            |
| Sept. 10, Th | Investment decisions (4): risk analysis                                  | 8                       |                            |
| Sept. 15, T  | Investment decisions (5): risk analysis and real options                 | 8                       |                            |
| Sept. 17, Th | Case 1 discussion: Whirlpool Europe; <b>in-class quiz 1</b>              |                         |                            |
| Sept. 22, T  | Investment decisions (5): more on real options                           |                         |                            |
| Sept. 24, Th | Case 1 presentation: Whirlpool Europe                                    |                         |                            |
| Sept. 29, T  | Investment decisions (6): cost of equity                                 | 10                      | 9                          |
| Oct. 1, Th   | Investment decisions (7): WACC   | 12                      | 11                         |
| Oct. 6, T    | Case 2 discussion: Marriott  |                         |                            |
| Oct. 8, Th   | Case 2 presentation: Marriott  |                         |                            |
| Oct. 13, T   | <b>Exam 1</b>  |                         |                            |
| Oct. 15, Th  | Corporate valuation (1): introduction                                    | 5                       | 5                          |
| Oct. 20, T   | Corporate valuation (2): the free cash flow approach                     |                         |                            |
| Oct. 22, Th  | Corporate valuation (3): examples  |                         |                            |
| Oct. 27, T   | Walmart case discussion; <b>in-class quiz 2</b>                          |                         |                            |
| Oct. 29, Th  | Case 3: Walmart  |                         |                            |
| Nov. 3, T    | Capital structure (1): introduction                                      | 14                      | 13 & 14                    |
| Nov. 5, Th   | Capital structure (2): under perfect financial markets                   | 15                      |                            |
| Nov. 10, T   | Capital structure (3): the effect of tax                                 | 15                      |                            |
| Nov. 12, Th  | Capital structure (4): limits to the use of debt                         | 16                      |                            |
| Nov. 17, T   | Capital structure (5): limits to the use of debt; <b>in-class quiz 3</b> | 16                      |                            |
| Nov. 19, Th  | Capital structure and capital budgeting: interactions                    | 17                      |                            |
| Dec. 1, T    | Special topics   |                         |                            |
| Dec. 3, Th   | <b>Exam 2</b>  |                         |                            |
| Dec. 8, T    | Term project presentations (1)   |                         |                            |
| Dec. 10, Th  | Term project presentations (2)   |                         |                            |