

Course Syllabus
MBAF 6200: Advanced Corporate Finance
Professor Russ Wermers

Revised: 8/28/96

Class: Business 211 on Mondays and Wednesdays, 11:00 a.m.-12:15 p.m.
My Office: Business 473
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Office Hours: Mondays and Wednesdays, 3-5 p.m. (or, by appointment)

Course Objectives:

1. To give you marketable skills in corporate finance
2. To introduce you to both the theory and application of some basic corporate finance topics
3. To prepare you to read the WSJ and the finance literature with a more sophisticated understanding

Final Grade:

Quizzes/Final Exam (Best 4 out of 5)	70%
Case Discussions	30%

Textbooks:

Grinblatt and Titman (**GT**), *Financial Markets and Corporate Strategy*, 1996 (manuscript; available about September 4 at UMC Bookstore—please call them to confirm!).

Chew (**CHEW**), *The New Corporate Finance: Where Theory Meets Practice*, 1993 (1st edition).

Copeland and Weston (**CW**), *Financial Theory and Corporate Policy* (optional, but highly recommended), along with solutions manual, 1988 (3rd edition).

Case packet (available about September 4 at UMC Bookstore—please call them to confirm!).

Cases:

I have assigned a case for each major topic of the course. These cases provide an application of the theories presented in the readings. I will call on groups to discuss certain aspects of each case, so be prepared to discuss anything about every case. Your grade on “Case Discussions” above (30% of your total grade) will be a group grade based on how well your group contributes to the understanding of the case by the class. **You must form groups of four during the first week of class, which will stay together for the entire semester.** Your group should come prepared to discuss each case, which means an analysis of the issues, made more insightful by an analysis of the numbers. I recommend compiling a neat, concise set of notes for your group to support your discussion in class.

Homework:

Homework assignments should be fully understood before the quiz for each topic of the class. It will *not* be collected, but solutions will be handed out or outlined in class. I highly recommend that you spend time attempting every homework problem, since this tests whether you understand the material. Some quiz questions will be similar to homework. *Your performance on quizzes and the final will depend on you faithfully keeping abreast of the reading and homework assignments.* In the past, students who are less well-prepared when starting the class have often been able to achieve an above-average grade (i.e., an A) by working hard!

Quizzes: There will be no midterm. Instead, a quiz (about 60 to 75 minutes long) will be given on four Mondays on the topic covered over the prior three or four weeks. This quiz will cover material related to the prior few weeks of (1) class lectures, (2) homework, and (3) cases. For example, the first quiz will be given on September 16 and will cover everything on the syllabus for Week 1, Week 2, and Week 3. **Please note:** **There will be no makeup quizzes, unless you have an officially approved (by the College of Business, Graduate Office) absence, but only your best four out of five quizzes/final will be counted. If you have an officially approved reason for missing more than one quiz, then I will base your quiz grade on the number of quizzes that you take, without penalizing you for missed quizzes.**

Final Exam: The last quiz will be held during the final exam period and will count exactly like all the other quizzes. It will cover only the final topic in the class, and it will be held in our same classroom on Saturday, December 14 from 3:30 p.m. to 6:30 p.m. (although it should only take about 60-75 minutes). If you are lucky enough to have done extremely well on your first four quizzes, then you have the option of not taking the final quiz; however, I recommend taking all quizzes and the final to maximize your chances for the highest grade possible.

Topic 1: How do I choose corporate projects (basic)?
[Capital Budgeting and the Cost-of-Capital (3 weeks)]

<u>Week:Date</u>	<u>Topic</u>	<u>Reading Assignment</u>	<u>Homework</u>
1:Aug. 26	Introduction: Capital Markets, Consumption, and Investment <i>Corporate Strategy and the Capital Budgeting Decision</i> by Alan Shapiro	CW: Chapter 1 CHEW (pp. 75-89)	CW: 1.1, 1.2
2:Sept. 2	Measures of Investment Choice: NPV, IRR, Payback Period Setting Up the NPV Equation <i>Finance Theory and Financial Strategy</i> by Stewart Myers	CW: Chapter 2 (pp. 17-36) CW: Chapter 2 (pp. 36-41) CHEW (pp. 90-97)	[Examples in CW (pp. 17-36)] CW: 2.1,2.3,2.5, 2.6,2.7,2.9
3:Sept. 9	More Advanced Capital Budgeting Topics <u>Case (Weds, Sept. 11):</u> <i>The Quaker Oats Company: Cost-of-Capital (A)</i>	CW: Chapter 3 (pp. 46-64)	CW: 3.1,3.2,3.3, 3.4,3.5,3.6,3.7

Quiz 1: Monday, September 16

Topic 2: How do I choose corporate projects (advanced)?
[Capital Budgeting and Strategic Options (3 weeks)]

<u>Week:Date</u>	<u>Topic</u>	<u>Reading Assignment</u>	<u>Homework</u>
4:Sept.16	Allocating Capital and Corporate Strategy	GT: Chapter 11	GT: 11.1-11.5
5:Sept.23	Allocating Capital and Corporate Strategy (continued) Case: [Arundel or MW Petroleum—to be announced]	GT: Chapter 11	
6:Sept. 30	<i>A New Approach to Evaluating Natural Resource Investments</i> by Michael Brennan and Eduardo Schwartz <i>Liquidity and Cost of Capital Implications for Corporate Management</i> by Yakov Amihud and Haim Mendelsohn	CHEW (pp. 98-107) CHEW (pp. 117-125)	

Quiz 2: Monday, October 7

Topic 3: How do I finance my company, and should I pay dividends ?
[Capital Structure and Dividend Policy (4 weeks)]

<u>Week:Date</u>	<u>Topic</u>	<u>Reading Assignment</u>	<u>Homework</u>
7:Oct. 7	Capital Structure Choice <i>The Modigliani-Miller Propositions After Thirty Years</i> , by Merton Miller	GT: Chapter 13 CHEW (pp. 129-141)	GT: 13.1-13.9
8:Oct. 14	Capital Structure and Dividend Policy <i>The Search for Optimal Capital Structure</i> , by Stewart Myers	GT: Chapter 14 CHEW (pp. 142-150)	GT: 14.1-14.6
9:Oct. 21	<i>Corporate Finance Over the Past 25 Years</i> , by Michael Brennan Bankruptcy Costs	(in reading packet) GT: Chapter 15 CW: Chapter 14	GT: 15.1-15.14
10:Oct. 28	<i>Leverage</i> , by Merton Miller <i>Managing Default: Some Evidence on How Firms Choose Between Workouts and Chapter 11</i> , by Stuart Gilson <i>The Bankruptcy Code and Violations of Absolute Priority</i> , by Lawrence Weiss <i>The Economics of Pre-Packaged Bankruptcy</i> , by John McConnell Case: Intel Corporation, 1992	CHEW (pp. 613-619) CHEW (pp. 645-653) CHEW (pp. 668-675) CHEW (pp. 676-680)	

Quiz 3: Monday, November 4

Topic 4: How do I raise money for attractive investments ?
[Leasing, Issuing Equity, and Issuing Debt (3 weeks)]

- 11:Nov. 4 Leasing CW: Chapter 17 CW: 17.1-17.5
- 12:Nov. 11 *Raising Capital: Theory and Evidence*,
by Clifford Smith CHEW (pp. 178-194)
Initial Public Offerings, by Roger Ibbotson,
Jody Sindelar, and Jay Ritter CHEW (pp. 253-269)
The Growing Role of Junk Bonds in Corporate
Finance, by Kevin Perry and Robert Taggart CHEW (pp. 279-297)
- 13:Nov. 18 **Case: Fiat--1986**

Quiz 4: Monday, November 25

Topic 5: Should I Manage Corporate Risk ?
[Corporate Risk Management (1 week)]

- 14:Nov. 25 **Reading: Why Manage Risk?** [See Case Packet]
Managing Financial Risk, by Clifford
Smith, Charles Smithson, and D. Sykes
Wilford CHEW (pp. 370-391)
Case: Enron Gas Services
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Topic 6: How Do I Evaluate a Corporate Takeover ?
[Mergers and Acquisitions (2 weeks)]

- 15:Dec. 2 Corporate Control (Mergers and Acquisitions) CW: Chapters 19, 20
(selected pages)
- 16:Dec. 9 **Reading: Crime? Greed? Big Ideas? What**
Were the '80s About? [See Case Packet]
Case: Walt Disney Productions: Greenmail

Quiz 5: Saturday, December 14 (3:30-6:30 p.m.)—Covers Topics 5 and 6!
