

University of California, Davis
Graduate School of Management
MGB/P/T 205: Financial Theory and Policy
Spring 2017

Instructor:	Gregory Perelman	Class Web site:	class posted on Canvas
Contact e-mail:	gp36@yahoo.com	Class Meetings:	see GSM schedule
Office Hours:	before/after class and by appointment (phone/skype/viber)		
TA:	TBD		
TA contact:	TBD		

Course Description:

This is an introductory course in corporate finance. You will learn the basic tools of corporate finance, including: present value calculations, valuations of stocks and bonds, investment decision rules, estimation of cost of capital, capital structure decisions and corporate distribution policies.

Prerequisites:

Students are expected to have strong foundation in accounting and statistics. Students should be comfortable with algebra at an intermediate level.

Teaching Style:

Lectures, problems solving, cases discussions. Current events in corporate finance will be discussed to enhance learning experience.

Course texts:

Required Textbook

Principles of Corporate Finance, by Brealey, Myers, and Allen, 12th edition, 2017. (ISBN: 978-1-259-14438-7); previous editions are acceptable.

HBS Cases (course textpak):

1. Acid Rain: The Southern Company (A). #9-792-060, Rev. April 28, 1993
2. H.J. Heinz: Estimating the cost of capital in uncertain times. #UVA-F-1634, Nov. 8, 2010

Other reading materials will be distributed in class or over the class web page.

Grading Policies:

Class participation	10%
Case studies (group)	20%
Quizzes	35%
Final exam	<u>35%</u>
Total	100%

Class participation:

This course is structured as a SEMINAR, which means you must come prepared for class discussions and actively participate in class to receive credit. You are expected to read assigned chapters **before class**. Unexcused absences will count against your final grade. If you expect to miss a class for any reason, send me an e-mail beforehand. In class discussions, entire groups may be asked to take stands and express their views on the case questions. At other times, individual students will be asked to do the same. Students can expect a mix of all approaches. Questions and discussions are encouraged throughout the course.

Case studies:

In this class, you will work with a team (4-5 students) on two case studies. For each case, your team must submit a 3-4 pages write up (excluding exhibits), which address questions posted on the course website for each case. If you include exhibits, please refer to them in the text and make clear why they were included. Submit Excel spreadsheets with your work, so I can check how you arrived at your solutions. Note: Word file should be a self-contained document where you address *all of the case questions* and Excel file is a supplementary source (do not state in Word document “see Excel for details”)

Every team must submit the following (by e-mail):

- a) *Before class*: write-up in Word document; Excel spreadsheet with solutions;
- b) *After class*: one-page summary of the in-class discussion (address any issues that you might have missed in the pre-class write-up); submit the summary within five days of the case discussion

All submitted files must follow naming conventions and include your name (for individual work) and team/case numbers for group submissions – see class website for details.

Quizzes and Final Exam:

We will have several quizzes and a final examination. All tests are open book/notes. The lowest score on the quizzes will be dropped in calculating your overall course grade.

If you cannot take the scheduled final exam for personal or professional reasons, you must request alternative arrangements **before the exam**. No make-up exams will be given after the scheduled final exam.

Homework:

Mastery of the material in this course requires substantial time investment in practicing how to apply the “tools of the trade.” Homework exercises will be assigned, but not collected and graded. Solutions to exercises will be provided and some of them will be discussed in class. Many students find that working in groups on homework assignment works well for them and you are encouraged to form teams to work on homework. Quizzes will be based on material covered in homework exercises. Since Excel is a default financial tool at many companies, we will use it extensively and many homework exercises will require application of Excel functions.

Tentative Class Schedule

Meeting	Topics/readings/assignments
1	<p>Introduction to corporate finance and present value calculations</p> <p>Required reading: Ch. 1: Introduction to Corporate Finance Ch. 2: How to Calculate Present Values</p> <p>References to chapters are given for the following textbook: <i>Principles of Corporate Finance</i> by Brealey, Myers, and Allen (12th ed.). To find similar chapters in other textbooks, see the table of content on the class website.</p>
2	<p>Financial statements analysis</p> <p>Required reading: Ch. 28: Financial Analysis Ch. 29: Financial Planning Ch. 30: Working Capital Management (optional)</p>
3	<p>Valuing stocks and bonds</p> <p>Required reading: Ch. 3: Valuing Bonds Ch. 4: The Value of Common Stocks</p>
4	<p>Investment decisions</p> <p>Required reading: Ch. 5: Net Present Value and Other Investment Criteria Ch. 6: Making Investment Decisions with the Net Present Value Rule</p>
5	<p>Risk and return; cost of capital</p> <p>Required reading: Ch. 7: Introduction to Risk and Return Ch. 8: Portfolio Theory and the Capital Asset Pricing Model Ch. 9: Risk and the Cost of Capital</p>
6	<p>Capital budgeting</p> <p>Required reading: Ch. 10: Project Analysis Acid Rain: The Southern Company (A)</p>
7	<p>Efficient markets</p> <p>Required reading: Ch. 13: Efficient Markets and Behavioral Finance Ch. 14: An Overview of Corporate Financing</p>

8	<p>Capital structure and payout policy</p> <p>Required reading: Ch. 16: Payout Policy Ch. 17: Does Debt Policy Matter? Ch. 18: How Much Should a Corporation Borrow?</p>
9	<p>Real options</p> <p>Required reading: Ch. 20: Understanding Options Ch. 21: Valuing Options (optional) Ch. 22: Real Options (optional)</p>
10	<p>Course review and case discussion</p> <p>Case: H.J. Heinz: Estimating the cost of capital in uncertain times</p> <p>Q&A session (addressing any questions you might have about corporate finance)</p>
11	<p>Final exam</p> <p>San Ramon (odd weekend – early): Friday, June 9, 2:00-5:00 pm San Ramon (odd weekend – late): Saturday, June 10, 1:00-4:00 pm Sacramento: Wednesday, June 14, 6:00-9:00 pm</p>