

**MBAC 6060: CORPORATE FINANCE
FALL SEMESTER SESSION B 2008
LEEDS SCHOOL OF BUSINESS
UNIVERSITY OF COLORADO at BOULDER**

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I. COURSE DESCRIPTION:

This course is an introduction to financial management. The goal is to provide all of you, regardless of your ultimate MBA functional area concentration or career path, with a solid understanding of the fundamental tools and decision-making processes of business finance. Accordingly, the objective is to provide a conceptual framework to appreciate and understand the problems facing the financial manager in the real world today.

Financial Management covers the following topics:

- financial analysis and planning,
- Fisherian economics and financial mathematics,
- valuation of securities,
- capital budgeting (the investment decision) under certainty,
- the linkage of corporate strategy to finance,
- capital market theory,
- risk and return and asset pricing,
- capital budgeting under uncertainty and the cost of capital,
- efficient capital markets,
- capital structure,
- dividend policy, and
- mergers and acquisitions.

While MBAC 6060 is not designed to dwell on abstract theory, an understanding of the basic theoretical underpinnings of finance is a prerequisite to intelligent analysis and problem solving. The ultimate objective of the course is to provide the “well-educated” general manager with the conceptual basis for making sound financial decisions in the modern business environment. Despite this requirement, the practical importance of the material, naturally leads us to discuss innumerable examples and applications.

II. COURSE MATERIALS:

Required Texts: *Corporate Finance*, 8th edition, by Stephen Ross, Randolph Westerfield, and Jeffrey Jaffe, 2008, Irwin/McGraw-Hill (A student problem manual is available.) This book is referenced on

the weekly assignment schedule (see Section VIII) as **RWJ**

Analysis for Financial Management, 8th edition, by Robert C. Higgins, 2006, Irwin/McGraw-Hill. This book is referenced on the assignment schedule as **HIG**. Higgins writes in an applied, “user friendly” format for practicing financial managers. While not providing comprehensive coverage of some finance topics, and not emphasizing the required theory, the book provides reinforcement and additional intuition to Ross, Westerfield, and Jaffe. While “non-finance” types may sell their **RWJ** text at the conclusion of the course, I strongly recommend that all students keep the Higgins text for future reference; it is indispensable for any manager.

Cases: There is also a small packet of cases available at the bookstore.

Webpage: You will find various teaching notes, slides, and problem sets at: <http://leeds-faculty.colorado.edu/zender/> or on MyLeeds.

III. COURSE POLICIES:

As mentioned above, MBAC 6060 is an ambitious course. Many past students, at a variety of universities, consider the core finance class to be the most difficult course in the first year of their MBA program. The pace is necessarily swift and mastery of the material is time-consuming. Experience has shown that students who get behind are seldom able to recover. Therefore, *a strong and continuing time commitment is necessary*. Please read the following course policies carefully! I will not deviate from these policies except under *extreme* circumstances!

Your grade will be determined as follows:

- Midterm Exam 30% November 10th
- Comprehensive Exam 40% December 15th
- Cases 30% See the schedule

Exams will likely contain a mixture of essay questions, problems, and, perhaps, some multiple-choice questions. Materials covered in the lectures, readings, and assignments will be the focus of the exams. To stress your mastery of concepts rather than your ability to memorize, you may bring one 8-1/2 by 11 inch sheet of paper (one sided) containing your personal notes, important equations, favorite quotes, etc, to each exam. A typewritten page is acceptable.

No "makeup" exams will be given unless they are arranged for in advance of the examination date! If you miss a midterm exam (due to an emergency only, this is not an option you may elect) you will receive your weighted-average grade on the other midterm and final exam. *The final exam must be completed in order to pass the course!* Students who wish to appeal their score on any exam must submit the exam and a brief discussion *in writing* on why a different grade is warranted. Any appeal to an exam grade must be delivered to me *no later than one week following the date the exam is returned*. Furthermore, I reserve the right to re-grade all questions on the exam (I make errors in being too generous as well as too stingy!).

I will hold *optional review sessions* at (hopefully) convenient times before the midterm and the final. These sessions will have no set format or length; I will simply respond to your questions for as long as it takes. Review session times will be arranged to best fit our schedules.

The Harvard Cases and the Wasatch Electronics case are to be handed in, one per group. Limit yourselves to 2-3 pages of discussion plus any supporting tables you wish to attach.

Class participation is an important indication of daily preparedness. Thoughtful feedback from you facilitates the learning process and makes classes lively and interesting. *Good questions are an important form of participation.* Come to class prepared to ask and answer questions posed by your classmates or myself. While I do not formally grade class participation it is an important part of the learning process and I expect each student to participate to the benefit of all.

Optional homework assignments are provided for most of the classes. The assignments are structured to reinforce the major themes of the class for that day, and to illustrate the types of problems you can expect to find on the exams. These assignments *will not be collected*; however, you are advised to consider them mandatory! Solutions to the problems are available on the course webpage. However, simply reviewing the answers is a **very** poor substitute for attempting the problems yourself. To get the most out of class, and ensure you keep up with the swift pace, you should carefully read the assigned chapters and attempt the problems **before** the corresponding lecture. Many students have found success doing the homework assignments in small groups.

Professionalism is expected! I have a zero tolerance policy for plagiarism and cheating. Many of the cases and homework assignments have been used before and I caution you that it is a violation of the Honor Code to receive any unauthorized assistance in completing these assignments. Outside of the members of your group or the TAs, no assistance is authorized. Other than for use directly related to the lecture please do not use your laptops for connection to the internet, E-mail, or messaging during class. Such behavior is detrimental to the learning environment for those around you.

IV. LECTURE NOTES:

The lecture notes are posted on the course web page as well as lecture modules 1 – 19. Many students have reported a preference for these notes relative to the text. Please be advised that *reading these notes should not be viewed as a substitute for attending class and carefully taking your own notes.* The lecture modules were developed by me and an old colleague (Ron Lease) in order to provide a different presentation of the material than that given in class. This is an attempt to acknowledge that for every student there is a different way to present the material that will make it most understandable, and so the more ways I can present the material the better. While the modules are designed to cover most of the highlights of the lectures, many of the more subtle points are "fleshed out" in the lectures as a result of questions that come up in class, or alternative ways that I find to explain the materials in "real time." Typically, additional examples will be covered in class. In combination, by carefully reading the chapters, reviewing your own comprehensive class notes, reviewing the slides and the "posted" lecture modules, and working and understanding the chapter problems, problem sets, cases, and other assignments, you should obtain an in-depth understanding of the materials in corporate finance.

V. COMMUNICATION:

I will be communicating with the group via the “notes” section of my webpage or on “MyLeeds”.

VI. TEACHING ASSISTANTS:

The teaching assistants for the course this year are Nicolas Kuhlenthal, Greg Norris, and Jak Pattamesaevi. They are likely to be some of your most valuable resources for understanding the material in this course. There will be formal T.A. sessions on Wednesdays from 8 AM till 9 AM in S127. These sessions will cover specific material in an informal classroom setting and may be used for problem solving time permitting. The schedule of topics is posted on the “schedule” section of the class website. The TAs will also hold office hours on Mondays from 9 – 10 AM and 5 – 6 PM and Fridays at 9 – 10 AM in room 365J. Get to know the TAs and buy them drinks; they will be doing a lot for you. Please note that the fact that the TAs are made available to you **does not at all** imply that I don’t want to see you in **my** office. It is simply an attempt to provide as much support as possible. I encourage all of you to use my own office hours and other times to see me.

VII. OTHER IMPORTANT ISSUES:

If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services in a timely manner so that your needs may be addressed. Disability Services determines accommodations based on documented disabilities. Contact: 303-492-8671, Willard 322, or www.Colorado.EDU/disabilityservices

I will make every effort to provide accommodation for students who, because of religious obligations, have conflicts with scheduled exams or assignments. The schedule for these requirements is on the course webpage. Please notify me in advance of any such conflict so that we may devise an appropriate solution. http://www.colorado.edu/policies/fac_relig.html

Students and faculty each have responsibility for maintaining an appropriate learning environment. Students who fail to adhere to such behavioral standards may be subject to discipline. Faculty have the professional responsibility to treat all students with understanding, dignity and respect, to guide classroom discussion and to set reasonable limits on the manner in which they and their students express opinions. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, culture, religion, politics, sexual orientation, gender variance, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by an alternate name or gender pronoun. Please advise me of this preference early in the semester so that I may make appropriate changes to my records. See policies at <http://www.colorado.edu/policies/classbehavior.html> and at http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code

The University of Colorado at Boulder policy on Discrimination and Harassment (<http://www.colorado.edu/policies/discrimination.html>), the University of Colorado policy on Sexual Harassment and the University of Colorado policy on Amorous Relationships applies to all students, staff and faculty. Any student, staff or faculty member who believes s/he has been the subject of discrimination or harassment based upon race, color, national origin, sex, age, disability, religion, sexual orientation, or veteran status should contact the Office of

Discrimination and Harassment (ODH) at 303-492-2127 or the Office of Judicial Affairs at 303-492-5550. Information about the ODH and the campus resources available to assist individuals regarding discrimination or harassment can be obtained at <http://www.colorado.edu/odh>

All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution.

Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council (honor@colorado.edu; 303-725-2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university probation, suspension, or expulsion). Other information on the Honor Code can be found at <http://www.colorado.edu/policies/honor.html> and at <http://www.colorado.edu/academics/honorcode/>

Course Schedule MBAC 6060 - Fall 2008 Session B

<u>Meeting</u>	<u>Date</u>	<u>Topic</u>	"*ed" <u>Assignments</u> To be completed prior to the associated class.
			<p>TA office hours are Mondays 9 - 10 AM, Mondays 5 - 6 PM, Fridays 9 - 10 AM, all in Teamroom 365J</p> <p>My office hours are Monday and Wednesday from 4:15 - 5:15 S450C</p> <p>TA Presentations are Wednesday Mornings 8:00 - 9:00 AM in S127</p>
Lecture 1	10/20	Course Introduction PP (Powerpoint) LMod1 Review of Financial Acctg and Creation of Cash Flow Information PP LMod2	<p>Read*: Syllabus</p> <p>Read*: Chapters 1 & 2 (HIG)</p> <p>Read: Statement of Cash Flow, and Valuation Cash Flow (attempt exercise)</p> <p>Read: Net Working Capital and Cash Flows</p> <p>Prob: 2.1, 2.2, 2.4, 2.5, 2.8 (problems are in RWJ unless noted) (Ans)</p>
TA Session	10/22	EXCEL Skills	All TA Sessions will be held in S127 at 8 AM
Lecture 2	10/22	Pro-forma Financial Statements: An Introduction PP	<p>Read*: Chapters 3 & 4 (HIG), Chapter 3 (RWJ)</p> <p>Read: Financial Analysis & Planning</p> <p>Read: The 5 C's of Credit</p> <p>Prob: 4.2 (HIG) (Ans) This is a very good problem to attempt! However, use tables 3.1 and 3.2 to develop the pro forma and answer the questions based on that forecast.</p> <p>Read: How to Go Broke while Making a Profit</p> <p>Case: Cache Valley Products (Ans)</p> <p>Case: Baumgarten Electrical Supply (Ans)</p>
Lecture 3	10/24	Financial Mathematics PP LMod3 LMod4	<p>Read*: Chapter 4 plus the Appendix (RWJ)</p> <p>Prob: 4.1-4.7, 4.10, 4.16, 4.17, 4.20, 4.23, 4.24, 4.29, 4.30, 4.32, 4.33, 4.35, 4.36, 4.40, 4.43, 4.48, 4.50-4.52 (Ans)</p>
Lecture 4	10/27	Net Present Value PP	<p>Case*: Wasatch Electronics</p> <p>Read: Chapter 7 (pgs 239-249) (HIG)</p> <p>Problem Set # 1 (Ans)</p>
TA Session	10/29	Wasatch Electronics	

Lecture 5	10/29	Valuing Securities - Bonds PP LMod5	Read* : Chapter 5 plus Appendix (RWJ) Prob : 5.1, 5.3, 5.5, 5.7, 5.9, 5.11 - 5.13, 5.16, 5.17 (Ans)
Lecture 6	10/31	Valuing Securities - Stocks	Problem Set #2 (Ans)
Lecture 7	11/3	Capital Budgeting Rules PP LMod6	Read* : Chapter 6 (RWJ) Read : Chapter 7 (pgs 249-269) (HIG) Prob : 6.1, 6.3, 6.6 - 6.9 (Ans) HBS Case* : Lockheed TriStar (questions)
TA Session	11/5	Present value and net present value	
Lecture 8	11/5	Capital Budgeting Applications PP LMod7 LMod8	Read* : Chapter 7 (RWJ), 8 (RWJ) HBS Case* : Ocean Carriers (questions) Prob : 7.2, 7.3, 7.4, 7.6, 7.8, 7.13, 7.16, 7.29 (Ans) Read : Chapter 7 Appendix (HIG) Read : Capital Budgeting: An Alternative Format Prob : XYZ Company (Ans) Prob : Coleman Coupling (Ans) Prob : Deer Valley Ski Resort (Ans) Problem Set #3 (Ans)
Lecture 9	11/7	Capital Market History PP LMod9 Risk and Return PP LMod10	Read* : Chapter 9 (RWJ) Prob : 9.1 - 9.3, 9.5, 9.7, 9.8, 9.11, 9.13, 9.14 (Ans) Read* : Chapter 10 (RWJ) Problem Set #4 (Ans)
EXAM	11/10	Midterm Exam #1 Last Year's Exam	In Class
TA Session	11/12	Statistics Review	
Lecture 10	11/12	CAPM LMod11	Read : Chapter 10 plus Appendix (RWJ) Prob : 10.1, 10.3, 10.9, 10.10, 10.12, 10.16, 10.19, 10.21, 10.29 (Ans) Read : Chapter 11 (RWJ) Problem Set #5 (Ans)
Lecture 11	11/14	Capital Budgeting Under Uncertainty PP LMod12	Read* : Chapter 12 (RWJ) Prob : 12.1, 12.4, 12.5, 12.6, 12.11 (Ans)
Lecture 12	11/17	Efficient Markets PP LMod13	Read* : Chapter 13 (RWJ) Read : Lecture Module 14

			<u>Prob</u> : "Concept Questions" 13.3, 13.4, 13.6, 13.13, 13.18, 13.19, 13.22 (Ans)
TA Session	11/19	WACC	
Lecture 13	11/19	Capital Structure PP LMod14 , LMod15 , & LMod16	<u>Read</u> *:Chapter 15 (RWJ) (Ch 14 for review) <u>Prob</u> : 15.1, 15.3, 15.6, 15.9, 15.11, 15.12 (Ans) <u>Read</u> *: Chapter 16 (RWJ) <u>Prob</u> : 16.1, 16.3, 16.6, 16.8, 16.10 (Ans) <u>Read</u> : Chapter 19 (RWJ) <u>Read</u> : Chapter 6 (HIG) Problem Set #6 (Ans)
Lecture 14	11/21	Marriott Case LMod17	<u>Read</u> *: Chapter 17 plus Appendix (RWJ) <u>Read</u> : Chapter 8 plus Appendix (HIG) <u>HBS Case</u> *: Marriott Corp. Cost of Capital (questions)
Fall Break 11/22 - 11/30			
Lecture 15	12/1	Dividend Policy PP	<u>Read</u> *: Chapter 18 plus Appendix (RWJ) <u>Read</u> : Lecture Module 18 <u>Prob</u> : 18.3, 18.4, 18.6, 18.10 - 18.12 (Ans)
TA Session	12/3	Valuation: WACC & APV	
Lecture 16	12/3	M&A Valuation PP	<u>Read</u> *: Chapter 9 (HIG) It's important you read this before lecture. <u>Read</u> : Lecture Module 19 Complete included case before lecture. <u>Read</u> : Chapter 29 (RWJ) <u>Prob</u> : 29.4, 29.5, 29.11, 29.14 (Ans)
Lecture 17	12/5	Pinkerton Case	<u>HBS Case</u> *: Pinkerton (A) (questions)
Lecture 18	12/8	Introduction to Option Pricing PP LMod20	<u>Read</u> *: Chapter 22 (RWJ) <u>Read</u> : Chapter 23 (RWJ) <u>Prob</u> : 22.1, 22.3, 22.4, 22.7, 22.21
Exam	12/15	Final Exam (Ans) 9:00 AM - 12:00 PM Last Year's Exam	