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Course Objectives

This course has the following objectives:

• Introduce the concepts and theories of modern financial management
• Develop an appreciation for the usefulness of these theories for financial decision making
• Increase the student's financial decision-making skills
• Provide an overview of current financial management theories and practices

Required Materials

Required: Corporate Finance by Ross, Westerfield and Jaffe, 10th ed., McGraw-Hill Irwin


A reading package (with required and recommended readings) has been put together for the course. You will not be tested on the recommended readings.

Course Structure and Grading

The course consists of lectures, optional homework assignments, two quizzes and two exams (a midterm and a comprehensive final). Relevant course materials are posted on Blackboard.

Lectures

The lectures are designed to provide an understanding of the major elements of finance. The emphasis is on the logic underlying concepts, on how each concept is used in finance, and on how the concepts are interrelated. The lectures are not note taking drills; rather, they are dynamic sessions in which information is presented by the instructor via
visual aids and through direct interaction with the class.

**Homework**
Optional problem-solving practice assignments, with solutions, are available on Blackboard. These assignments have recommended problems from the RWJ text and some additional problems. It is important that you work through these problems on your own. The TA is available to help you with any questions you may have.

**Quizzes and Exams (400 points)**
- **Quiz 1** (50 points): Friday, February 15, end of class
- **Midterm exam** (100 points): Friday, March 15, beginning of class. The exam will cover relevant text chapters (RWJ and Rao), class lectures, and required readings up to and including the last class period. A sample midterm is posted on blackboard (this may not reflect the precise scope of your exam).
- **Quiz 2** (50 points): Saturday, March 30, end of class.
- **Final Exam** (200 points): Saturday, April 13. The final exam is comprehensive and covers the whole course. The exam will cover relevant text chapters (RWJ and Rao), class lectures, and required readings.

**Course Policies and Administrative Procedures**
- **Grades:** All grades are assigned after a careful examination of the work done. Any grade disputes should be submitted in writing to the TA after 24 hours and within two weeks of the receipt of the disputed exam/paper. No adjustments will be made after this two-week period.
- **Extra Problems:** Students can work out additional end-of-chapter problems in the text. Solutions to these problems are posted on Blackboard. Students having difficulty with these problems should seek help from the instructor or his assistant.
- **Missed quizzes/exams:** Students missing quizzes and/or exams with valid excuses should notify the instructor, in advance, where possible. They will have the final exam weighted proportionally more. Note that work pressures and travel obligations are not considered valid excuses.
- **Students with disabilities:** The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

**Important Dates**

Friday, February 15: Quiz 1
Friday March 15: Midterm Exam
Saturday, March 30, Quiz 2
Saturday, April 13, Final Exam (comprehensive)
Schedule

In the schedule below, “RWJ” refers to the Ross, Westerfield and Jaffe text and “Rao Chapter” refers to chapters in the Rao text.

The schedule below is organized by “Blocks” not by “Dates.” Some blocks will take more than one day.

Block I: Introduction and Overview

Discussion of Course, Class Procedures, and the "Big Picture."

RWJ Chapter 1. Introduction to Corporate Finance
Rao Chapter 1. The Firm and its Environment
Rao Chapter 2. Maximizing Stockholders' Welfare

Readings:
• Note on the Financial Perspective: What Should Entrepreneurs Know? Harvard Business School, 9-293-045. (Read this now, but the larger context will be meaningful only at the end of the course).
• “How to avoid getting lost in the numbers” HBS 9-682-01

Recommended:
• If you are interested in reading more about the myriad dimensions of the concept of capital and the philosophy of capitalism, Hernando De Sotos’ book The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else, is an interesting read. Basic Books, 2000.
• In previous years, students have wanted me to discuss in class the philosophy of Libertarianism. Without endorsing this website, I point out that one source of information is http://www.libertarianism.com/what-it-is.htm

Block 2: Time Value, Bond and Stock Valuation

RWJ Chapter 4: Discounted Cash Flow Valuation
RWJ Chapter 8: Interest Rates and Bond Valuation
RWJ Chapter 9: Stock Valuation
RWJ Chapter 15: Long-Term Financing: An Introduction

Note: Depending on time constraints, we may not cover Chapter 15 in class. You will be responsible for them (i.e., read them on your own). A brief PP will be posted on Blackboard.

Note: Printer-friendly time value tables, time value formulas, and “Financial Functions in Excel,” posted on Blackboard.

Recommended:
• “Introduction to Islamic Finance” (interest is proscribed), Harvard Business School Note 9-2-002
**Block 3: Operating and Financial Leverage**

**Rao Chapter 19:** The Impact of Operating and Financial Decisions on Cash Flows  
Application: Wyoming Gas and Electric

**Block 4: Capital Budgeting**

**RWJ Chapter 5:** Net Present Value and Other Investment Rules  
**RWJ Chapter 6:** Making Capital Investment Decisions  
Applied Research Technologies, posted on Blackboard.  
**Rao:** Coping with Cash Flow Uncertainty (PP Dec k on Blackboard)

**Readings:**
- Supplement on Capital Budgeting under Inflation, posted on Blackboard  

**Recommended:**
- Thomas Friedman’s *The Lexus and the Olive Tree*, Anchor Books 2000, is an interesting book about how the wealth-creation process has changed with globalization.

**Block 5: Risk, Expected Returns and Efficient Markets**

**RWJ Chapter 10:** Risk and return: Lessons from Market History  
**RWJ Chapter 11:** Return and Risk: The Capital Asset Pricing Model (CAPM)  
**RWJ Chapter 13:** Risk, Cost of Capital, and Capital Budgeting  
**RWJ Chapter 14:** Efficient Capital Markets and Behavioral Challenges

**Readings:**

**Recommended:**
University Press, 2003, argues that “our infatuation with stock markets distracts us from more durable economic prospects.” He suggests six new ideas for risk-reduction that finance theory has largely ignored.

- “The Other-Worldly Philosophers” (views on global crisis), The Economist, July 18, 2009, pp58-60
- “Efficiency and Beyond” (discussion of efficient markets), The Economist, July 18, 2009, pp. 61-62.

**Block 6: Capital Structure and Bankruptcy**

**RWJ Chapter 16:** Capital Structure: Basic Concepts  
**RWJ Chapter 17:** Capital Structure: Limits to the Use of Debt  
**Rao Chapter 16:** Resolving Financial Distress

**Readings:**


**Recommended:**

The article argues that extant cost of capital results and intuitions change dramatically when one admits risky debt and non-debt tax shields into the analytical framework (article is aimed at a technical audience, but the introduction and conclusion will give you the needed context).

**Block 7: Capital Acquisition and Valuation of the Levered Firm**

**RWJ Chapter 20:** Raising Capital  
Update on Investment Banking (on Blackboard)  
**RWJ Chapter 18:** Valuation and Capital Budgeting for the Levered Firm

**Readings:**

- “Valuing Companies in Corporate Restructuring” HBS 9-201-073  
• “A Note on Private Equity Securities” HBS 9-200-027
• “A Note on Capital Cash Flow Valuation” HBS 9-295-069
• “A Note on Valuing Equity Cash Flows” HBS 9-295-085

**Block 8: Risk Management with Derivatives**

**Rao Chapter 11:** Managing Total Risk with Derivative Securities

**Time Permitting:**

*Lecture:* The Martingale Intuition and Real Options (Notes to be handed out in class)

**Recommended:** *(if we cover the preceding Real Options lecture)*