FIN 394.1: Advanced Corporate Finance

Fall 2007

Amir Barnea

Unique number 03270 – Tue / Thu 08:00am – 09:15am (UTC 1.104)

Unique number 03275 – Tue / Thu 09:30am – 10:45am (UTC 1.104)

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Office Hours (Amir): Tuesday 11:00am – 11:45am, Wednesday 11:00am – 11:45am at CBA 6.272

Access to course material is via Black Board

Course Overview

The objective of this course is to develop an understanding of the decisions facing financial managers. In this course we will approach problems from the perspective of the Chief Financial Officer. We will focus on decisions concerning raising money (equity, debt, etc.), and spending money (capital budgeting, acquisitions). The first part of the course will deal with real investment decisions (capital budgeting), while the second part will address decisions about how to finance those investments (capital structure). In the final part we will talk about mergers and acquisitions, which have both investment and financing implications.

Books and Materials:

(Required) **Course Packet**

- Please obtain a course packet from the copy center on the third floor of GSB.

(Required) **Lecture Notes and Class Handouts**

- These will be available via the course web page (see the address above) as the course develops.

(Recommended) **Textbook:** Mark Grinblatt and Sheridan Titman, ***Financial Markets and Corporate Strategy***, 2nd Edition (Irwin/McGraw-Hill, 2002)

Please note: the textbook assigned to this class is not an easy one but it is very comprehensive and very good. I've assigned below the relevant readings for each topic that we are going to cover. I recommend the book as an additional reference but it is not mandatory. You are fully responsible, though, to ALL the material that we cover in class including teaching notes, cases, homework and other material that I would specifically assign.

Another good book for reference which is **NOT** required:

- Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, Corporate Finance (7th ed.), Irwin/McGraw-Hill, 2002.

Other Sources

- The Wall Street Journal, the New York Times business section, The Economist are all recommended (pick one). We will cover the conceptual material to help you think through financial decisions. However, details of a particular issue a recruiter might ask your thoughts on will come from the press.

My Commitment to you:

- I will try to make the course an enjoyable and challenging experience
- Be open to your comments and suggestions
- Be more accessible before the exams (extended office hours)
- Have my door open to you for any personal problem or difficulties that you might have

Grading guidelines:

Class participation	5%
Mini - Quizzes (4 over the term)	15%
Homework Assignments (5) and Cases (2)	25%
Midterm Exam	25%
Final Exam (Cumulative, hence harder)	30%

- Class participation grade is going to be based mostly on (surprise) class participation and not class attendance.
- Each mini-quiz will be based on the material that we discussed in the previous classes. Quizzes will be short. If you're on top of things in class you shouldn't have any problem. We'll have 4 quizzes over the term (see the attached schedule), and I will drop the worst mark for each student. There are no make-up quizzes; if a student doesn't show-up to class on time to take the quiz (for whatever reason), a zero mark will be assigned for that quiz (of course, I will consider it as the worst one…).
- Homework and cases are due at the beginning of class (see the due dates below). Late cases will not be accepted as I'm solving them in class.

- The **"good citizen bonus"** - If your final exam score is in the top 20% of the score distribution **within** your section, you will get an **A** in the class, **regardless** of your other grades. The only condition for this rule to apply is that you have been a **"good citizen"**, i.e., participated in quizzes, lectures, and the midterm and handed in homework assignments and cases.
- **The warm-up homework should be handed in individually.** For all other homework and cases, you should work in groups of up to **four**. Please submit one write-up per group, and make sure you PRINT all group members' names on the first page. There is no need to work with the same group of people throughout the term. Assignments must be handed in at the start of the class in which it is due. Late assignments will not be accepted.
- Homework assignments include applied problems and exercises. The first case is more like a HW. For the second case, I have assigned specific questions to be addressed; these are included in the course packet.
- If you miss an exam due to a personal emergency, please try to inform me in advance. Even in a case of a personal emergency no make-up exam will be administered for the midterm. In that case your final exam will count for 55% of the final grade. In any other circumstance missed exams will be assigned zero points.
- The exams are all closed book. The final exam is cumulative but will cover more topics from the second half of the course (post midterm).

Policy on Scholastic Dishonesty:

Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

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.

Cases Included in the Course Packet

1. Valuing Capital Investment Projects (HBS 9-298-092)
2. Sky Television vs. British Satellite Broadcasting (HBS 9-794-031)

Suggested reading list – from Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy*, 2nd Edition (Irwin/McGraw-Hill, 2002)

Introduction, course overview. Valuing Real Investments, or Bonds and Projects

- GT: 10.1, 10.2, 10.4, 10.5, 10.6

Valuing Real Investments, Review of Financial Investments and Risky Projects

- GT: Chapters 5 & 6 and 11.1, 11.2, 11.3

Valuing Risky Projects

- GT: 11.4, 11.5, 11.6, 11.7, 11.8, 12.2 (pp. 426-9)

Financial Options

- GT: Chapter 8

Real Options

- GT: 12.1, 12.2

Valuation and Taxes: WACC

- GT: 13.1, 13.2, 13.3, 13.4

The Modigliani-Miller Theorem

- GT: 14.1, 14.2, 14.3, 15.2

Bankruptcy and Conflicts Between Debt & Equity Holders

- GT: 16.2, 16.3, 16.4

Capital Structure & Corporate Strategy

- GT: Chapter 17

Corporate Governance and Managerial Compensation

- GT: Chapter 18, 10.3

Information Conveyed by Financial Decisions

- Chapter 19

FIN 394.1 (Course Plan)		
Date	**Topic**	**HW / Case / Quiz**
30-Aug-07	Introduction	
4-Sep-07	Foundations of Valuation of Real Investments	
6-Sep-07	Financial Investments I	**Warm-up HW due**
11-Sep-07	Financial Investments II	**Quiz #1**
13-Sep-07	Risky Projects I	
18-Sep-07	Risky Projects II + **Case 1: Valuing Capital Investment**	**Case #1 due**
20-Sep-07	Financial Options I	
25-Sep-07	Financial Options II	**HW #1 due**
27-Sep-07	Real Options and Corporate Strategy I	
2-Oct-07	Real Options and Corporate Strategy II	
4-Oct-07	Game Theory I	
9-Oct-07	Game Theory II	**Quiz #2**
11-Oct-07	M&M	
16-Oct-07	Review class	**HW #2 due**
18-Oct-07	**MIDTERM EXAM - IN CLASS**	
23-Oct-07	Midterm Solution	
25-Oct-07	M&M II, **CASE 2: Sky TV vs. BSB**	**Case #2 due**
30-Oct-07	Bankruptcy I	
1-Nov-07	Bankruptcy II	
6-Nov-07	Capital Structure & Corporate Strategy	**HW #3 due**
8-Nov-07	Managerial Compensation I	
13-Nov-07	Managerial Compensation II	**Quiz #3**
15-Nov-07	Information I	
20-Nov-07	Information II	
22-Nov-07	**NO CLASS - Thanksgiving day**	
27-Nov-07	M&A I	
29-Nov-07	M&A II	**Quiz #4**
4-Dec-07	Review class	**HW #4 due**
6-Dec-07	**FINAL EXAM - IN CLASS**	