**FIN 394.1 Advanced Corporate Finance**

*Spring 2012*

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Office Hours: Wednesdays 2:00 pm to 4:00pm, and by appointment at other times

Course Overview

The objective of this course is to develop an understanding of the decisions financial managers face. 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, convertible bonds, etc.), and spending money (project valuation, acquisitions). The first part of the course will deal with real investment decisions, while the second part will address decisions about how to finance those investments. In the final part, we will talk about M&A and the market for corporate control.

Understanding CFO-type decisions will be helpful long before you become a CFO. For example, if you are working at a treasury group of a corporation, the material is directly relevant. If you are an investment banker you need to understand the rationale for designing and issuing securities. If you are in marketing or production, evaluating projects and understanding how the CFO makes her decisions are important. Finally if you are in consulting, capital budgeting and capital structure decisions will be the main agenda in many of your contracts.

Much of the material will be presented using simple examples designed to demonstrate how financial decisions can create, destroy, or modify value. Homework assignments will expand on these examples. However, the main issues we cover are conceptual. This is not the sort of class where solving a lot of exercises is useful; rather, it is important to master the main concepts.
Prerequisites:

Financial Management and Statistics are required; Valuation is strongly recommended.

Books and Materials:


- The book is available in several different formats:
  1. The chapters that we will cover in class have been ordered as a custom book, which will be available at the University Co-op (ISBN: 9781121112759).
  2. You can order an e-book at [http://create.mcgraw-hill.com/shop/](http://create.mcgraw-hill.com/shop/). There are two versions available: A custom book that includes only the chapters we will cover (ISBN 9781121125766), or the whole book that includes the remaining chapters as well (ISBN: 9781121125759).
  3. You may find a used copy of the hardcover version.

(Required) **Course Packet**

- You can obtain the course packet from the copy center on the third floor of GSB.

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

- These will be available on Blackboard as the course develops.

The following books are NOT required. I have listed them here in case you wish to get a different perspective on a topic. Alternatively, once you land the CFO job, you might want something for the bookshelf.


**Other Sources**

- The *Wall Street Journal*, *Financial Times*, the *New York Times* business section, the *Economist*, or *Business Week* are all recommended. 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 may come from the press.
Grading:

- Homework Assignments and Case Write-ups 25%
- Class Participation 10%
- Midterm Exam 25%
- Final Exam 40%

- There is one exception to the above grading rule. If your final exam score is in the top 20% of the score distribution (of the two sections that I teach), you will get an A in this course, regardless of your midterm and assignment scores. The only condition for this is that you have been a “good citizen,” that is, participated in lectures, handed in homework assignments and case write-ups, and took the midterm exam.

- You may work in groups of up to five for homework assignments and cases. Please submit one write-up per group, and make sure to indicate 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. Case write-ups should be memos of at most five double-spaced pages (excluding exhibits and appendices). For each case, I will assign some specific questions to be addressed. Grading of case reports will be based on how well you justify your arguments and support them with detailed and careful analysis. You should think of case reports as presentations you make to a board; to receive credit, your arguments must be convincing.

How to do well on the exams:

- Problem sets and in-class exercises provide the best preparation for the exams.

- The exams will be closed book. The final exam will cover the entire course, although it will be weighted toward the material we will cover after the midterm.
Articles and Cases Included in the Course Packet

Articles


Cases

1. Arundel Partners (HBS 9-292-140)
2. Massey Ferguson, 1980 (HBS 9-282-043)
3. MCI Communications Corp., 1983 (HBS 9-284-057)
4. Paramount Communications Inc. 1993 (Casenet South-Western College Publishing)
5. Paramount Communications Inc. 1994 (Casenet South-Western College Publishing)
## Class Schedule & Assigned Readings

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic (numbers represent sections in Grinblatt &amp; Titman’s textbook)</th>
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<tbody>
<tr>
<td></td>
<td><strong>January</strong></td>
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<tr>
<td></td>
<td><strong>PART I: VALUATION</strong></td>
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<tr>
<td>Tue. 17</td>
<td>Valuation of Corporate Assets: Basic Concepts and Methods (Ch. 10, 11)</td>
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<tr>
<td>Thu. 19</td>
<td>Valuation of Corporate Assets - continued</td>
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<tr>
<td>Tue. 24</td>
<td>Option Pricing (Ch. 8)</td>
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<tr>
<td>Thu. 26</td>
<td>Real Options and Corporate Strategy (12.1, 12.2, Articles 1, 2)</td>
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<tr>
<td>Tue. 31</td>
<td>Real Options and Corporate Strategy – continued</td>
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<td></td>
<td><strong>February</strong></td>
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<tr>
<td>Thu. 2</td>
<td>Real Options and Corporate Strategy – continued (Article 3 Part I)</td>
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<tr>
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<td><em>Homework 1 due in class</em></td>
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<td><strong>PART II: CAPITAL STRUCTURE AND FINANCIAL POLICY</strong></td>
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<tr>
<td>Tue. 7</td>
<td>Capital Structure I: The MM Benchmark (14.1, 14.2, 14.3, 15.2)</td>
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<tr>
<td>Thu. 9</td>
<td>CS I continued, Capital Structure II: Trade-off, Tax Considerations (14.4, 14.5, 15.3, 15.5, 15.6) – <em>Homework 2 due in class</em></td>
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<tr>
<td>Tue. 14</td>
<td>CS II continued (14.4, 14.5, 15.3, 15.5, 15.6)</td>
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<td>Thu. 16</td>
<td><strong>Case 1: Arundel Partners</strong></td>
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<tr>
<td>Tue. 21</td>
<td>Capital Structure III: Bankruptcy and Financial Distress (16.1, 17)</td>
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<tr>
<td>Thu. 23</td>
<td>Capital Structure III - continued – <em>Homework 3 due in class</em></td>
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<tr>
<td>Tue. 28</td>
<td>Midterm review</td>
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March

Thu. 1  
**Midterm Exam, 6-8pm, room TBA, no class**

Tue. 6  
No class – Plus trips

Thu. 8  
No class – Plus trips

Tue. 13  
No class – Spring break

Thu. 15  
No class – Spring break

Tue. 20  
Capital Structure Recap; Bankruptcy Costs and Debt Holder – Equity Holder Conflicts (16.2, 16.3, 16.4, Article 4)

Thu. 22  
Bankruptcy Costs and Debt Holder – Equity Holder Conflicts – continued

Tue. 27  
Bankruptcy Costs and Debt Holder – Equity Holder Conflicts – continued

Thu. 29  
Corporate Risk Management (Ch. 21)

April

Tue. 3  
Corporate Risk Management – continued

Thu. 5  
**Case 2: Massey-Ferguson**

Tue. 10  
Information Conveyed by Financial Decisions (Ch. 19)

Thu. 12  
Information Conveyed by Financial Decisions – continued (Article 3 Part II) – *Homework 4 due in class*

Tue. 17  
Corporate Governance and Managerial Compensation (Ch. 18, 10.3, Article 5)

Thu. 19  
**Case 3: MCI**

PART III: MERGERS, ACQUISITIONS, AND THE MARKET FOR CORPORATE CONTROL

Tue. 24  
M&A and the Market for Corporate Control (Chapter 20, Articles 6 and 7)

Thu. 26  
M&A and the Market for Corporate Control - continued – *Homework 5 due in class*

May

Tue. 1  
**Case 4: Paramount 1993**

Thu. 3  
**Case 5: Paramount 1994**