

Finance 357: Business Finance

(03085)

Time: Tuesdays and Thursdays 3:30-5:00 pm

Venue: UTC 1.132

Instructor: Woochan Kim

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Course Web Page

via Blackboard

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

COURSE DESCRIPTION

This course aims to provide students with sound understanding of the basic principles and practices of corporate finance. The course will start by equipping students with capital market theories and valuation techniques. Then, it will cover the three key financial decisions a typical firm makes: how to invest (capital budgeting), how to raise capital (financing & capital structure), and how to return profits (distribution to shareholders). As special topics, the course will also cover options and hostile takeovers.

PRE-REQUISITES

Pre-requisites include ACC 312 (Fundamentals of Managerial Accounting), credit or registration for BA 324 (Business Communication), ECO 304K (Introduction to

Microeconomics), ECO 304L (Introduction to Macroeconomics), and STA 309 (Elementary Business Statistics).

TEXTBOOKS

Main Textbook:

Ross, Westerfield, and Jaffe (2006), *Corporate Finance*, 8th edition (McGraw-Hill/Irwin)

Supplemental Readings (For Hostile Takeovers):

Burkart and Panunzi (2003), "Mandatory Bids, Squeeze-outs, Sell-out and the Dynamics of the Tender Offer Process," *ECGI Law Working Paper* No. 10/2003

Berglöf and Burkart (2003), "European Takeover Regulation," *Economic Policy*

Bebchuk (1987), "The Pressure to Tender: An Analysis and Proposed Remedy," *Delaware Journal of Corporate Law*, Vol.12 pp. 911-949

WEB SITES

Lecture notes, supplemental readings, assignments, answer keys, hand outs, grades, and many others will be available on-line at the Blackboard.

Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: <http://www.utexas.edu/student/registrar/catalogs/gi06-07/app/appc09.html>.

CALCULATORS AND OTHERS

Any ordinary calculator with exponent and root functions is sufficient for this course (including the quizzes and the exams). Financial calculators are not necessary.

During classes, mobile phones, BlackBerries, and any other similar gadgets should be turned off.

QUIZZES AND EXAMS

Three quizzes and three exams will be offered during the course. Quizzes and exams will be closed-book and will be administered in the class. Formula sheets will be provided. Mobile phones, BlackBerries, or any similar gadget should also be turned off.

As for the quizzes, only the two best scores will be considered in the final grade. Questions will be taken from the homework assignments, which will not be collected for grading. No make-ups are allowed for the quizzes. Quizzes will be immediately followed by a review session, during which the instructor will review the quiz questions.

Exam III is not comprehensive and will be given during the first half of the final exam period. Students that missed Exam I or II will make up that exam during the second half of the final exam period. But, a make-up will be allowed only for one of the two exams (Exam I and II).

Make-up for Exam III is not an option. Internship searches and travel are not acceptable excuses. Students missing exams for truly valid reasons (e.g., medial/bereavement) must notify the instructor in advance, where possible (prior to December 6), and provide documentation if requested. The reasons for asking a make-up for Exam I or II should be as significant as or very close to those for Exam III. Procedures that apply when requesting a make-up for Exam III also applies to Exam I and II (advanced notice and documentation).

ACADEMIC 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.

GRADING

The final numerical grade will be based on the results of two quizzes (two best scores out of three) and three exams. Following tables shows the distribution of weights. Student's final letter grade will be based on the student's ranking in the course. Approximately the curve has 25-30% A, 50-55% B, and 15-20% C or below.

	Weights	Dates
Quizzes	10%	9/18, 10/25, 11/29
Exam I	30%	10/4
Exam II	30%	11/13
Exam III	30%	12/12, 9-12pm

GRADING APPEALS

Grading appeals for quizzes and Exam I and II must be made in writing to the instructor within one week after the graded quizzes or exams are distributed back to students. Grading appeals for Exam III must be made in writing to the instructor within the first two weeks in the following semester.

COURSE OUTLINE

PART I: OVERVIEW

I-1: Introduction to Corporate Finance

Date August 30 (Th)
Readings Chapter 1.1, 1.2, 1.3, and 1.4

PART II: CAPITAL MARKET THEORY

II-1: Return, Risk, and Diversification

Date September 4 (Tu)
Readings Chapter 9 and Chapters 10.1, 10.2, and 10.3

II-2: Capital Asset Pricing Model (CAPM)

Date September 6 (Th)

Readings Chapters 10.6, 10.7, 10.8, and 10.9

PART III: VALUATION

III-1: Net Present Value (NPV) and Valuation of Bonds

Date September 11 (Tu)

Readings Chapter 4 and Chapters 5.1, 5.2, and 5.3

III-2: Valuation of Stocks

Date September 13 (Th)

Readings Chapter 5.4, 5.5, 5.6, 5.7, and 5.8

Quiz #1 & Review

Date September 18 (Tu)

PART IV: CAPITAL BUDGETING

IV-1: Cost of Capital I (Un-levered Firm and Cost of Equity Capital)

Date September 20 (Th)

Readings Chapter 12.1, 12.2, 12.3, and 12.4

IV-2: Cost of Capital II (Levered Firm and WACC)

Date September 25 (Tu)

Readings Chapter 17.3 and 17.7

IV-3: Investment Rules

Date September 27 (Th)

Readings Chapter 6.1, 6.5, 6.6, and 6.7

IV-4: Cash Flows

Date October 2 (Tu)

Readings Chapters 7.1 and 8.3

Review Session (Make-up for no class on October 18)

Date October 3 (Wed.) evening

Topics Review

EXAM I

Date October 4 (Th)

PART V: CAPITAL STRUCTURE

V-1: Benchmark Model (MM without Tax)

Date October 9 (Tu)
Readings Chapters 15.1, 15.2, 15.3, and 15.4

V-2: MM with Tax

Date October 11 (Th)
Readings Chapters 15.5 and 16.9

V-3: Financial Distress and Signaling

Date October 16 (Tu)
Readings Chapters 16.1, 16.2, 16.3, 16.4, and 16.5

No Class October 18 (Th)

V-4: Agency Cost and Pecking-Order Theory

Date October 23 (Tu)
Readings Chapters 16.6, 16.7, and 16.10

Quiz #2 & Review

Date October 25 (Th)

PART VI: DISTRIBUTION TO SHAREHOLDERS

VI-1: Benchmark Case and Real-World Factors

Date October 30 (Tu)
Readings Chapter 18 (except 18.4)

VI-2: Dividends and Investment Policy

Date November 1 (Th)
Readings TBA

VI-3: Repurchase of Stocks

Date November 6 (Tu)
Readings Chapter 18.4

No Class November 8 (Th)

EXAM II

Date November 13 (Tu)

PART VII: SPECIAL TOPICS I (DERIVATIVES)

VII-1: Options and Corporate Finance I

Date November 15 (Th)

Readings Chapters 22.1, 22.2, 22.3, 22.4, 22.5, 22.6, and 22.7

VII-2: Options and Corporate Finance II

Date November 20 (Tu)

Readings Chapters 22.9, 22.10, and 22.11

PART VIII: SPECIAL TOPICS II (HOSTILE TAKEOVERS)

VIII-1: Benefits of Hostile Takeover

Date November 27 (Tu)

Readings Supplemental Readings

Quiz #3 & Review

Date November 29 (Th)

VIII-2: Poison Pill

Date December 4 (Tu)

Readings Supplemental Readings

VIII-2: Mandatory Bid Rule

Date December 6 (Th)

Readings Supplemental Readings

Review Session (Make-up for no class on November 8)

Date December 6 (Th) evening

Topics Review + Issuing Securities to the Public (Chapter 19)

EXAM III

Date December 15 (F) 2-5pm