

## **Finance 357: Business Finance**

(03075)

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**Time:** Tuesdays and Thursdays 2:00-3:30 pm

**Venue:** UTC 1.132

**Instructor: Woochan Kim**

Office: CBA 6.304D

Office Hours: Fridays 9-11, others by appointment

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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*

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### **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*, 8<sup>th</sup> 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.

	<b>Weights</b>	<b>Dates</b>
Quizzes	10%	9/18, 10/25, 11/29
Exam I	30%	10/4
Exam II	30%	11/13
Exam III	30%	12/15, 2-5pm

## **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