

Fin 394.16: DMBA

Investments and Advanced Corporate Finance

Fall Semester 2016

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As the title of the course indicates, this course will be a blend of investments and corporate finance. In regard to the latter, it assumes that you are familiar with all of the material from your first finance course. The enclosed course outline may be changed--to accommodate any potential time constraints--as we progress through the course.

Readings

A majority of the course materials will be on Canvas. The readings –both required and optional—are listed later in the syllabus. These materials are drawn from the following sources:

1. Selected Chapters from Financial Management Concepts and Applications, 3rd. ed., by Ramesh Rao, International Thomson (“Rao text”).
2. Selected Chapters from Investments, 10th ed., by Bodie, Kane and Marcus, McGraw Hill-Irwin (“BKM text”), ISBN 978-0-07-786167-4
3. Selected Chapters from Corporate Finance, 10th ed., by Ross, Westerfield and Jaffee, McGraw Hill-Irwin (“RWJ text”), ISBN 978-0-07-786175-9
4. A reading from Valuation, 2nd ed., by Titman and Martin, Prentice Hall.
5. Materials from the Harvard Business School (HBS).

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.

Course Grading (Total 120 points)

Homework and Cases (50 points)

3 GROUP Cases (10 points each, 30 points total): Deliverables due at the beginning of class. These projects are cases. Cases are to be handed in as a group. You can create your own groups of about 4 or 5 people. Questions for Cases posted on Canvas. Additional details (e.g., number of pages, format) are available on the Canvas site.

1 INDIVIDUAL Project (asynchronous learning component, 20 points): St. Joseph's Hospital (on Canvas). Details in due course. You will need the @Risk software that can be downloaded for free from UT.

INDIVIDUAL Homework Assignments (SUBMISSION OPTIONAL, BUT MAY HELP COURSE GRADE). These are the problem sets on Canvas. If you work through them to a "satisfactory degree" (say, 50% attempted conscientiously) and submit them on time, you will get a score of "Acceptable." Otherwise, a score of "Not submitted" with zero points. The evaluation will be based on effort, not accuracy. Admittedly, this is subjective and will be decided by the instructor/TA. No appeals will be entertained.

If, at the end of the semester you fall "just below" the cutoff for a grade, you will be given the benefit of the doubt and may be bumped up.

The solutions to problem sets will be uploaded on to the Canvas site after the optional due dates.

In-class Exams (70 points)

Midterm Exam (30 points): **October 15, 2 hours**, (beginning of class). The exam is closed book and closed notes.

Final Exam (40 points): **November 18, 4 hours**. The final exam covers the whole course. The exam is closed book and closed notes.

To get partial credit **you must show your work**—the steps involved in solving the problem. It is not enough to say you got the answer from the calculator.

For the exams you are allowed to bring in one standard-sized page of formulas (both sides can be used). No other notation or text is allowed (this would be a violation of rules). If you like, you can also bring in time value of money tables.

No laptops are allowed during exams.

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.

In the past, some students have asked for more practice problems. You can work out additional end-of-chapter problems in the various text readings. Solutions to these problems will be posted electronically.

Missed exams: Students missing exams/quizzes with valid excuses should notify the instructor via email, 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.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs School community. The collective class reputation and the value of the Texas MBA experience hinge on these standards. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

Students arrive on time. Timely arrival ensures that classes are able to start and finish at the scheduled time. Timely arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.

Students display their name cards. This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.

Students are fully prepared for each class. Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but also their peers who count on them.

Students respect the views and opinions of their colleagues. Disagreement and debate are encouraged; however, intolerance for the views of others is unacceptable.

Laptops are to be used only for class work.

Phones and wireless devices are turned off.

Academic Dishonesty

The McCombs School has no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the MBA degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described at <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and within this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. During Orientation, you signed the Honor Code Pledge. In doing so, you agreed to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. As specific guidance for this course, you should consider the *writing* of all examinations to be an individual effort without any use of books, notes, or other unpermitted aids. Group *preparation* for examinations is acceptable and encouraged.

Honor Code Purpose

Academic honor, trust, and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust, and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards Of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the Graduate School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge describes the conduct promoted by the Honor System, as follows:

“I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do.”

“I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the Graduate School of Business.”

Students with Disabilities

Upon request, The University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located in the Student Services Building. Additional information is available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Readings (Required and *Optional*)

All titles in italics are optional:

R1	BKM Chapter 1: The Investment Environment
R2	BKM Chapter 2: Asset Classes and Financial Instruments
R3	BKM Chapter 3: How Securities are Traded
R4	BKM Chapter 4: Mutual Funds and Other Investment Companies
R5	Rao Chapter 2, Sections 2 and 3: Maximizing Stockholders' Welfare
R6	Rao Chapter 19: The Impact of Operating and Financial Decisions on Cash Flows
R7	BKM Chapter 15: The Term Structure of Interest Rates
R8	BKM Chapter 16: Managing Bond Portfolios
R9	Rao Chapter 16: Resolving Financial Distress
R10	<i>Rao, The Bankruptcy and Restructuring of First City Bancorporation</i> (Optional reading)
R11	<i>Titman-Martin Chapter 4: Estimating a Firm's Cost of Capital</i> (Optional reading)
R12	RWJ Chapter 18: Capital Budgeting and Valuation of the Levered Firm
R13	Rao Chapter 10: Adjusting for Uncertainty and Financing Effects in Capital Budgeting Decisions. Section 10-1(6 pages).
R14	<i>A Note on Private Equity Securities, HBS 9-295-069</i> (Optional Reading)
R15	Rao Chapter 11: Managing Total Risk with Derivative Securities
R16	BKM Chapter 20: Options Markets: Introduction
R17	BKM Chapter 21: Option Valuation
R18	Capital Projects as Real Options: An Introduction, HBS 9-295-074.

Cases (see case questions on Canvas)

HBS 9-282-043	Massey Ferguson, 1980 (due date: before class begins, Week 4)
HBS 9-201-094	Sampa Video, Inc. (due date: before class begins, Week 5)
On Canvas	St. Joseph's Hospital (asynchronous learning)
HBS 9-292-140	Arundel Partners (due date: before class begins, Week 7—last class day)

<p style="text-align: center;">INTENSIVES</p>	<p>Introduction and Course Overview</p> <p>The Capital Market Environment</p> <p>The Agency Problem (read on your own)</p> <p>Operating and Financial Leverage</p> <p>Publicly-traded Equity: Valuation</p>	<p>Materials on Canvas R1, R2, R3, R4</p> <p>Materials on Canvas, R5 (Sections 2 and 3)</p> <p>R6, Wyoming Gas and Electric</p> <p>Materials on Canvas</p>
<p style="text-align: center;">WEEK 1 Aug 26-27</p>	<p>Review of Intensives Materials and</p> <p style="text-align: center;">Fixed Income</p> <p>Fixed Income Basics</p> <p>Interest rate risk-management</p>	<p>Due: Problem sets on Capital Market Environment and Wyoming Gas and Electric</p> <p>Materials on Canvas, R7, R8</p>
<p style="text-align: center;">WEEK 2 Sept 9-10</p>	<p>Capital Structure and Bankruptcy Resolution</p> <p>Capital Structure Theory: -Positive Aspects of Debt -Negative Aspects of Debt</p> <p>Financial Distress and Bankruptcy Resolution</p> <p>Speaker from Deloitte</p>	<p>Due: Problem sets on Fixed Income</p> <p>Materials on Canvas, R9, R10, R11 <i>Optional</i></p>
<p style="text-align: center;">WEEK 3 Sept 23-24</p>	<p style="text-align: center;">The Cost of Capital</p> <p>Alternate Approaches to Valuation</p> <p style="text-align: center;">REVIEW</p>	<p>Due: Problem sets on Capital Structure and Bankruptcy Resolution</p> <p>Materials on Canvas, R12 <i>Optional</i></p>

<p>INTENSIVES WEEK Oct 15</p>	<p>MIDTERM EXAM (2 hours)</p> <p>Coping with cash flow Uncertainty</p> <p>Applied Research Technologies (on Canvas)</p>	<p>Materials on Canvas R13</p>
<p>WEEK 5 Oct 28-29</p>	<p>Introduction to Private Equity and Venture Capital</p> <p>Introduction to Risk Management: Options and Futures</p>	<p>Massey Ferguson Case Due (pertains to Week 2 materials)</p> <p>Materials on Canvas R14 <i>Optional</i></p> <p>Materials on Canvas, R15</p>
<p>ASYNCHRONOUS LEARNING</p>	<p>St. Joseph's Case: Application of Coping with CF Uncertainty</p>	<p>Materials on Canvas</p>
<p>WEEKS 6 Nov 11-12</p>	<p>Options Valuation: Financial and Real</p> <p>Financial Options Real Options</p> <p>Course Review</p>	<p>Materials on Canvas R16, R17</p>
<p>WEEK 7 Nov 18</p>	<p>FINAL EXAM (3 hours) (COMPREHENSIVE)</p>	<p>Due: Problem sets on Risk Management and Options</p> <p>Arundel Case Due (pertains to weeks 5 and 6 materials) (R18 will be useful)</p>