



FIN 394.16 Corporate Finance

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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). 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.

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.

Books and Materials:

(Required) Textbook: Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy*, 2nd Edition (Irwin/McGraw-Hill, 2002), **Chapters 8, 10, 11, 12, 14, 15, 16, 19**

(Required): Cases

- I have ordered the relevant chapters of the textbook as a custom book. You will receive it along with the cases on the first class day (there are no assignments from the book for the first class).

(Required) Lecture Notes and Class Handouts

- These will be available on Blackboard as the course develops. I will post the first set of notes before our first meeting and send you an email when I do so.

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.

- Robert C. Higgins, **Analysis for Financial Management** (7th ed.) Irwin/McGraw-Hill, 2004.
- Richard A. Brealey, Stewart C. Myers, and Franklin Allen, *Principles of Corporate Finance* (8th ed.), Irwin/McGraw-Hill, 2006.
- Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, *Corporate Finance* (6th ed.), Irwin/McGraw-Hill, 2002.
- Joel M. Stern and Donald H. Chew, Jr. eds. *The Revolution in Corporate Finance*, (4th ed.), Blackwell Business, 1998.

Other Sources

- The *Wall Street Journal*, *Financial Times*, the *New York Times* business section, the *Economist*, or *Business Week* are all recommended.

Grading:

Homework Assignments and Case Write-ups	40%
Class Participation	10%
Final Exam	50%

- 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 exam:

- Problem sets and in-class exercises provide the best preparation for the exam.
- The exam will be closed book.

Schedule:

A tentative schedule appears below. Please note that like an airline, I reserve the right to alter the schedule as we go.

Class Schedule & Assigned Readings

Date Topic (numbers represent sections in Grinblatt & Titman's textbook)

January

Tue 17 Foundations of Valuation; Valuation of Risky Projects (10, 11)

Tue 24 Valuation of Risky Projects continued; Valuation with Taxes

Tue 31 Option Pricing (8), Real Options (12.1, 12.2)

February

Tue 7 **Case 1: Arundel Partners**

Capital Structure I: The MM Benchmark (14.1, 14.2, 14.3, 15.2)

Capital Structure II: Trade-off, Taxes (14.4, 14.5, 15.3, 15.5, 15.6)

Tue 14 **Homework 1 due in class**

Capital Structure III: Bankruptcy and Financial Distress (16.1, 16.2, 16.3, 16.4)

Information Conveyed by Financial Decisions (19)

Tue 21 Information Conveyed by Financial Decisions – continued

Case 2: MCI

Fri 24 Homework 2 due (you can email me a soft copy)

Tue 28 **Final Exam**