

Corporate Financial Management

(FE449 Section A1)

Professor Dirk Hackbarth

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Class Schedule and Location

Section A1: Mondays and Wednesdays, 4:30-5:45pm, Classroom HAR 302.

Office Hours

Mondays and Wednesdays, 3:30-4:30pm, or by appointment, Office HAR 564.

Course Description and Objective

The objective of this course is to introduce you to the theory of corporate finance, and to provide you with a set of analytical tools necessary to answer the most important questions related to firms' investment and financing policies.

Investment decisions. We will discuss how firms should choose their investments. We will identify cash flows relevant to the valuation of an investment project and discuss popular investment criteria. In addition, we will present some tools for practical investment decision making, including real options. If we have time, we will also discuss different practices of risk management.

Financing decisions. We will try to answer some of the most important questions that you will face as a financial manager: Should you raise equity or debt to finance your firm's projects? Do capital structure choices (debt vs. equity) matter for total firm value? What are the consequences of various capital structure changes: debt and equity issues, dividends, and share repurchases?

We will also discuss how asymmetric information affects both investment and financing decisions.

Course Material

The course material consists of a set of class slides and a required textbook. The **class slides** will be posted on QuestromTools. The **required textbook** is: "Corporate Finance" by Jonathan Berk and Peter DeMarzo, 3rd edition, Pearson, with access code to MyFinanceLab, a fully integrated online platform for homework assignments and self study. You are highly discouraged to use previous editions of the textbook, as you would be entirely responsible to make up for the differences.

Prerequisites

We will heavily build on the prerequisite core class FE323. You also need to be familiar with basic concepts in probability and statistics, as covered in e.g. SM221. If you have problems even after reviewing the material from previous classes, please come to office hours.

Attendance and Class Participation

You are expected to attend all the classes. Missing a few classes is fine, there is no need to notify me, but please let me know if you cannot attend on a regular basis. If occasionally you cannot make it to your own section, feel free to come to the other section. However, you need special permission to change sections on a permanent basis.

Please bring your calculator to every class, since we do practice problems together in class. **Laptops, cell phones, and other electronic devices with wireless communication are NOT allowed in class, since they distract both you and others.** If you have any of these with you, please turn them off and put them away before the class starts.

Classes start on time. Please do your best to arrive on time. I expect active participation by students. Thoughtful questions, answers, and remarks will be rewarded.

Assignments

You will be given weekly homework assignments, which will be available online at

<http://www.myfinancelab.com>

The weekly homeworks will be assigned and made available on MyFinanceLab every Wednesday evening at 9:00pm EST, and are due on Wednesday morning of the following week at 11:00am EST (unless otherwise communicated). You should only submit your assignment on MyFinanceLab (no hard copies). Please bear in mind that the online system will not allow for late submission, resulting in a zero grade for a late assignment. **The weekly assignments on MyFinanceLab are mandatory and will form part of your final evaluation.** The precise instructions regarding registering and logging in will be posted on the class website on QuestromTools. Student support is available at

<http://www.myfinancelab.com/students/support/index.html>

Exams

You are responsible for all the class material: slides, homework assignments, practice material on QuestromTools, and all the relevant chapters and problems of the required textbook. You need to bring your own calculator to the exams, including a back-up if you are risk averse. **Calculators with built-in text memory are NOT allowed for the exam.**

Midterm exam. The midterm will be a closed-book, in-class exam, and will be based on all of the required course materials that will be covered during the first half of the class.

Final exam. The final exam will be a closed-book exam and will be based on all of the required course materials that will be covered during the whole class.

I will do my very best to ensure fair and consistent grading of the exams. However, I will not discuss grades or grading policies in class. In case you discover some mistake in the grading, you need to submit a written appeal explaining the problem within 7 days of receiving the grade. Any request will lead to a complete regrade of the exam, thus your final score might go up or down. If you miss any of the exams without advance permission or not due to a serious medical condition, you will receive zero points for that exam.

Performance Evaluation

Performance evaluation will be based on examinations, homework assignments, and class participation. Letter grades will be curved and assigned according to the guidelines of the Undergraduate Program Office. The weights on different parts of the class are the following:

- Class participation: 10%
- Homework assignments: 15%
- Midterm exam: 35%
- Final exam: 40%

All violations of the exam rules and the Academic Conduct Code will be submitted to the Academic Conduct Committee (no exceptions). Serious violations will automatically result in failing the class.

Course Outline

The following list of topics and references (chapters from the required textbook) describes the material that I plan to cover during the class. I retain the right to deviate from this list if necessary, but I will give you advance notice.

Part I. Investment decisions

- **Investment criteria:** Chapter 7
- **Capital budgeting (without leverage):** Chapter 8
- **Financial options:** Chapters 20
- **Option valuation:** Chapter 21
- **Real options:** Chapter 22

Part II. Financing decisions

- **Capital structure in a perfect capital market:** Chapter 14
- **Capital structure with taxes:** Chapter 15
- **Capital structure and financial distress:** Chapter 16
- **Capital structure and managerial incentives:** Chapter 16
- **Capital budgeting with leverage:** Chapter 18
- **Payout policy:** Chapter 17

Extra material (if time permits)

- **Asymmetric information:** Chapters 16, 17
- **Risk management:** Chapter 30