



FE 810: Finance 2

Module 4: SPRING 2016 Class Schedule

Session	Date	Day	Topic	Readings (book chapters)	Assignments (due prior to class)
UNIT 1: FINANCIAL POLICY UNIT					
1	3/14	M	• Introduction, Overview, and Review		
2	3/16	W	• Capital Structure in a Perfect Market	• 14	
3	3/21	M	• Debt and Taxes	• 15	• Chapter 14 Data Case
4	3/23	W	• Financial Distress	• 16	• Practice Problems 1
5	3/28	M	• Payout Policy	• 17	• Chapter 15 Data Case
6	3/30	W	• Exam 1		• Practice Problems 2
UNIT 2: FIRM VALUATION UNIT					
7	4/4	M	• Valuation with Leverage • BBBY and UST (Team Cases)	• 18	• Chapter 17 Data Case
8	4/6	W	• Valuation and Financial Modeling • Infineon and Intel (Team Cases)	• 19	• Practice Problems 3
UNIT 3: OPTIONS UNIT					
9	4/11	M	• Financial Options	• 20, 21	• Chapter 18 Data Case
10	4/13	W	• Financial and Real Options	• 21,22	
11	4/20	W	• Real Options • Arundel and Laura Martin (Team Cases)	• 22	• Practice Problems 4
12	4/25	M	• Review and Wrap-Up • MW Petroleum and Merck (Team Cases)		
13	4/27	W	Exam 2		



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Office Hours: 2-3 pm on Tuesdays or by appointment

We will have plenty of TA office hours, which are completely voluntary. Their aim is to help students who struggle with some of the theoretical and practical concepts discussed in class. The details are given below.

Teaching Assistant	Email
Ben Courtney	b1c11@bu.edu
TA Office Hours (Room 518L)	Tu 11.00-12.30 W 15.30-17.00

COURSE DESCRIPTION

The course can be divided into the following three building blocks.

1. Financial Policy

We consider first how the choice of debt and equity affects firm value in a perfect capital market. There we apply the Law of One Price to show that as long as the cash flows generated by the firm’s assets are unchanged, then the value of the firm—which is the total value of its outstanding securities—does not depend on its capital structure. Therefore, if capital structure has an effect on firm value, it must come from *changes to the firm’s cash flows that result from market imperfections*, such as bankruptcy costs and taxes. Hence we analyze the role of debt in reducing the taxes a firm or its investors will pay, and consider the costs of financial distress and changes to managerial incentives that result from leverage. Finally, we consider the firm’s choice of payout policy and ask: Which is the best method for the firm to return capital to its investors?

2. Firm Valuation

We integrate our understanding of risk, return, and the firm’s choice of capital structure. We develop the three main methods for capital budgeting with leverage and market imperfections: weighted average cost of capital (WACC) method, adjusted present value (APV) method, and flow-to-equity (FTE) method. We will identify conditions that can make one method easier to apply. We then value a firm (Ideko) in the context of a leveraged acquisition, which serves as a capstone case that illustrates how all the concepts developed thus far are used to make complex real-world financial decisions.

3. Options

We turn to settings in which a firm or an investor has an option but not an obligation to buy or sell an asset in the future. Financial options are an important tool for corporate financial managers seeking to manage or evaluate risk. The growth of derivatives markets can be traced to the discovery of methods for valuing options, which we derive in using the Law of One Price. An important corporate application of option theory is in the area of real investment decision-making (or real options).

COURSE OBJECTIVES

- Building on concepts covered in the finance module of the core curriculum (Module 2), this course extends fundamental concepts of corporate finance, capital markets and asset pricing introduced in the core. The course prepares finance concentrators for the specialized MBA finance electives offered in the second year. The course will provide skills relevant for all finance electives and is required for all finance concentrators in the full time MBA program. It will help students to acquire necessary knowledge for a successful summer internship.
- This course covers the core of finance with an emphasis on applications that are vital for corporate, risk and portfolio managers. We will discuss many of the major financial decisions made by managers both within the firm and in interactions with other market participants. We will emphasize the role of risk, how it is managed and how risk, uncertainty, information and incentives interact and can be addressed by designing appropriate mechanisms.
- The course aims to provide you with a set of analytical tools necessary to answer the most important questions related to financial policy, firm valuation, and options. Overall, these course objectives contribute towards the MBA learning goals by enabling graduates to deepen their understanding of core concepts of finance, and by helping graduates to be able to successfully apply critical and analytical thinking.

COURSE PEDAGOGY

- The course will be a mix of
 - Lectures
 - Case studies and examples
 - Practice problems solved in Excel
 - Discussions of current developments
- Students should always bring and display their name cards in class.

COURSE MATERIALS

- Required textbook: *Corporate Finance* by Jonathan Berk and Peter DeMarzo, 3rd edition (without MyFinanceLab), Prentice Hall, ISBN-13: 978-0-13-342415-7.

We will discuss a series of cases, which are available electronically for purchase from the Harvard Business School website (<http://hbsp.harvard.edu/>), and can be found as a Coursepack at the following site at HBS publishing: <https://cb.hbsp.harvard.edu/cbmp/access/48069115>.

It is expected that the required readings pertinent to each class will be completed before the lecture. We reserve the right to pose questions to individual students during lectures ("cold calls") in order to stimulate class participation.

- Additional materials: Lecture notes and additional content will be available on the course website on QuestromTools (see below). You are required to print out the course materials pertinent to each meeting and bring them with you to class (or have them available on a tablet device or a laptop).
- Course website: All class materials will be posted on the course website. In addition to all class materials, I will also post practice exams, problems, and repeat important announcements on the website; it is your responsibility to visit it frequently, and definitely before each class.

PERFORMANCE EVALUATION

The following evidence will be used to determine your grade:

Component	Weight
Exam 1 (March 30)	20%
Exam 2 (April 27)	30%
Data Cases	20%
Team Cases	15%
Class Participation	15%

Details on Performance Evaluation.

- **Exams:** The exams will cover the material of the course. You will be allowed to use up to two letter size pages (or a two-sided page) as “cheat sheet” prepared in advance of the exam.
- **Data Cases (spreadsheet assignments):** Building spreadsheet models helps to achieve one of the main goals of this course – learning the logical relationships among financial variables. Moreover, the ability to work comfortably with spreadsheet models is an essential skill that can only be acquired through practice. There will be four spreadsheet assignments from the course textbook, which you are to complete and submit throughout the semester. The spreadsheet assignments are to be prepared individually and due online on the date listed in the schedule.
- **Team Case Presentations:** Groups of 3 students present their solutions to the cases on the first page of the syllabus. On dates in which cases are due, there will be at least two student or team presentations of each case. You are encouraged to sign-up as soon as possible (again, there is a maximum of 3 students per slot). The list of the available slots will be given in class, and slots are first-come, first-serve.
- **Class Participation:** I will expect active participation by students. “Active participation” does not mean that you need to try to answer every single question posed in class. Thoughtful questions, answers, and remarks will be rewarded. “Thoughtful” does not have to coincide with “correct”. The goal of participation is to arrive together at the right answer.
- **Practice Problems:** Though not part of the performance evaluation, students should individually work through all practice problems and consult with the TA in case they have any questions.

ACADEMIC INTEGRITY

We will abide by the school’s code of academic integrity: <http://questromworld.bu.edu/acc/>. Note that working as part of a group implies that you are an active participant and fully contributed to the output produced by that group.

ATTENDANCE AT EXAMS

No make-up exams will be given. Unexcused absence will result in a zero being entered for the exam grade. Excused absence (very rare) will result in the final grade being determined by the other evaluation inputs. An excused absence must be arranged with the instructor before the exam. University letters allowing special exam taking procedures must be provided to the instructor at least one week prior to the exam.