

William E. Simon Graduate School of Business Administration
UNIVERSITY OF ROCHESTER

Applied Corporate Finance
FIN 413, Fall 2005

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Course website: TBA

Class hours: MW 1:30–2:50pm. There will be *no* class on September 28, November 2, and November 23, all of which are Wednesdays. Last day of class is Wednesday, December 7.

Office hours: M 6:00–7:30pm or by appointment

Assistant: Vicki Mullen, email mullen@simon.rochester.edu

Course Objective

This course is designed to provide a conceptual framework and a broad overview of corporate finance topics such as corporate investment, financing, and payout policies, executive compensation, hedging policy, cash management, mergers and acquisitions, and corporate governance. We will study much of the available empirical evidence on these topics.

Prerequisites

Students are required to have completed Capital Budgeting and Corporate Objectives, FIN 402.

Readings

The readings are designed to encourage questions and discussions about the points in class, but more importantly, to facilitate understanding of the course material, which may otherwise be very difficult. It is imperative to do the *required* reading before the lectures. Required readings are generally from the textbooks, with a few exceptions from important practitioner-oriented journal articles.

Optional readings will generally come from practitioner-oriented journals such as the Journal of Applied Corporate Finance. Occasionally, readings will also come from academic research journals such as Journal of Finance, Journal of Financial Economics, and Review of Financial Studies.

Expectations of Student Performance

This is a difficult course. The average student can expect to spend around 8–10 hours per week outside of class with assigned readings, reviewing lectures, and working on the heavy-duty assignments. My expectations are that students will come to class prepared by having read the relevant sections in the textbook and assigned articles.

It is *imperative* that you come to class prepared, or you may get lost in the class quickly and waste your time at the end. In case you fall behind the rest of the class, it is entirely your responsibility to work your way up, including taking advantage of my and the TA's office hours. However, in the office hours please do *not* ask me or the TAs how to solve the problems assigned in the projects *before* their due dates.

Teaching Assistant

TBA

Lab Sessions

There will be no regular lab sessions. But I usually hold review sessions about one week before the midterm and the final. Review sessions have the Q&A format. I will not cover new materials in these review sessions. *You* have to ask questions first. Usually you can only ask reasonable questions after you have studied the course materials.

Course Materials

The books for the course are, in alphabetical order:

- Brealey and Myers (2003), Principles of corporate finance, 7th edition
- Brickley, Smith, and Zimmerman, 2004, Managerial economics and organizational architecture, 3rd edition
- Chew, 2001, The new corporate finance: Where theory meets practice, 3rd edition
- Grinblatt and Titman, 2004, Financial markets and corporate strategy, 2nd edition
- Smith, 1990, The modern theory of corporate finance

The course website will contain: (i) course announcements; (ii) lecture notes; (iii) Excel spreadsheets, problem sets, and solutions; and (iv) some required and all optional readings (journal articles) in PDF format.

Lecture notes and other handouts will be distributed during most class meetings. Students who miss class are responsible for obtaining copies of material distributed in class, including project assignments. In general, lecture notes will be available for download several days before each class from the course website.

However, assigned readings will be available for download at least one week before the class meeting from the course website. Completing the required reading before each lecture is strongly recommended. You are also encouraged to complete as much optional reading as possible.

Course Requirements and Grading

The course grade will be based on a midterm exam, a final exam, and a number of assignments. Your course grade will be determined using the following weights:

Assignments	30%
Midterm	30%
Final	40%

No letter grades will be assigned to exams or problem sets, but I will report the distribution of exam scores for the final and the midterm. Class participation helps decide grades at the margin.

Exams

Both midterm and final exams are closed book, but you will be allowed to bring one crib sheet (front and back, 8.5 by 11 inches) to the midterm and two to the final. You can use a calculator that can compute logs and raise numbers to arbitrary powers. However, laptop computers and calculators with word-processing features are *not* allowed to use in exams.

The midterm is scheduled from 1:30 to 2:50pm on Monday, October 31. This is a regular class time. *Only under extreme circumstances such as medical or family emergencies, will I waive your midterm requirement so that the final will account for 70% of your grade.*

The final exam is a comprehensive exam covering all the materials in the course with a focus on the second half of the quarter. The date of the final will be determined by the school. I have no control over its schedule.

Group Assignments

The assignments are intended to give some hands-on experience with real-life examples and cases and to provide some insights into applying economic concepts and quantitative techniques. The assignments will require computations that can be performed on a computer using Excel or other statistical programs. Students are required to do the assignments in groups up to *four* members.

Assignments must be submitted to me at the beginning of the class on the due date. Each group should submit a single copy of their work, clearly specifying the names of all contributing members. All team members will receive the same project grade. The assignment report should be a self-contained write-up of the results and conclusions. Additional tables or figures may be included. The assignment will be distributed in class at least one week before each due date. Solution keys will be available on the course website and in class.

Under absolutely no circumstances, will I accept late assignments.

Regrading Policy

Requests for a regrade of either an exam or an assignment must be submitted in writing no later than one week following the day the item was returned. For the regrade request, please give your names and section along with a brief summary of why you think the grading was in error. *Note that the entire exam or assignment will be regraded and that any regrade request may result in a lower grade.*

Academic Integrity

Students are expected to follow the rules of academic honesty in this course. The exact interpretation of academic integrity in my courses is that *exams are to be the work of the individual using only the material permitted during the exam time.* Concerning all other aspects of the course, including the assignments, however, I encourage you to discuss freely with your classmates. *But the work you ultimately turn in for your assignments must be that of your own group.*

Tentative Course Outline

The following is a tentative list of the topics that will be covered in the course. Some of the required readings are listed under each topic. More required readings may be added later on the course website as the course unfolds.

Introduction, an overview of corporate financing

Smith, 1990, The theory of corporate finance — a historical overview, in Smith, page 3

Grinblatt and Titman, Chapters 1, 2, and 3

Capital budgeting: A review

Grinblatt and Titman, Chapters 9, 11, 13

Financing policy

Barclay and Smith, 1995, On financial architecture: leverage, maturity, and priority, *Journal of Applied Corporate Finance* 8, 4–17

Barclay and Smith, 1999, The capital structure puzzle: another look at the evidence, *Journal of Applied Corporate Finance* 12, 8–20

Barclay, Smith, and Watts, 1997, The determinants of corporate leverage and dividend policies, *Journal of Applied Corporate Finance*

Grinblatt and Titman, Chapters 14 and 16

Warner, 1977, Bankruptcy costs: some evidence, *Journal of Finance*, reprinted in Smith, p. 71

Payout policy

Barclay, Smith, and Watts, 1997, The determinants of corporate leverage and dividend policies, *Journal of Applied Corporate Finance*

Black, 1976, The dividend puzzle, *Journal of Portfolio Management*, 5–8, in Smith, p. 215

Grinblatt and Titman, Chapter 15

Smith, 1993, Raising capital: theory and evidence, in Chew, p. 277

Agency theory and applications

Grinblatt and Titman, Chapters 18, 19

Smith and Warner, 1979, On financial contracting: an analysis of bond covenants, *Journal of Financial Economics*, reprinted in Smith, p. 167

Real options

Grinblatt and Titman, Section 7.3, Chapter 12

Hedging policy

Grinblatt and Titman, Chapters 21, 22

Stulz, 1996, Rethinking risk management, *Journal of Applied Corporate Finance* 9, 8–24

Mello and Parsons, 1999, Strategic hedging, *Journal of Applied Corporate Finance* 12, 43–54

Smith, 1995, Corporate risk management: theory and practice, *Journal of Derivatives*, 21–30

Mergers and acquisitions

Grinblatt and Titman, Chapter 20