

COMM 371 – THEORY OF FINANCE – Section 201, Jan-Apr 2008

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Course Web Page: all materials are available on WebCT

Classes: Monday & Wednesday, West Mall Swing Space 305, 10:00-11:20

Office Hours: Monday & Wednesday 12:00 – 1:00

I. Description

This course undertakes in-depth study of specific financial decisions and events that are important in the life of a corporation. The objective is to help the student develop an understanding of the underlying economic issues, and to gain experience applying empirical and theoretical tools. The course builds on the foundation provided by Commerce 370. The course balances theoretical content and practical applications by using several case-studies that are useful for real-life decisions you may need to make. The basic topics are working capital management and financial planning, valuation (mostly focusing on adjusted present value), moral hazard and adverse selection in financial markets, sources of capital and types of securities, capital structure, the effect of real options on valuation, and risk management.

II. Course Materials

Text

The textbook for the background reading required in this course is:

(RWJR) Ross, Westerfield, Jaffe, and Roberts, *Corporate Finance*, Fourth Canadian Edition, McGraw-Hill Ryerson, 2005.

This is an MBA-level text that covers the basics reasonably well. RWJR will be the basis for several lectures. There are some copies of this text available at the bookstore. Four copies of these texts are on reserve in the David Lam Library for your exclusive use. You should make copies of the chapters you plan to read and return it to the library.

Reading Packet

This is required and available from Duplication Services Center on the 4th floor of Henry Angus. The packet contains the cases that we will use throughout the course. There may be articles that appear as required readings in the course outline but are not included in this packet. These will be available for download on the course home page.

Lecture notes and supplements

You can download this material from the course web page. You should print and bring the lecture notes to class. In addition, it will help you to read these notes before coming to class. Lecture notes are made available for your convenience. However, be aware that these notes may contain typos and other problems that we may need to fix during class. These notes may contain some blank spaces that we will complete in class. You are responsible for taking notes to fill in the missing content and you can rely on other students if you don't come to class.

III. Evaluation

Group Project

Groups of 3-4 students (groups of 2 or 5 are not acceptable) will work on a project that I will announce later during the course. The write-ups are due two weeks after they are announced in class. Try to form your own groups as quickly as possible. If you have difficulty, let me know and I will assist you. Style and presentation are as important as quantitative factors in determining your grade. Completion of the projects is required for a passing grade. No solution will be posted for these projects. It is unusual to see either extremely high or extremely low grades on the project assignment.

Exams and assignment

There will be a midterm and a (cumulative) final examination. You are required to take ***both*** exams. If you miss an exam, you must contact the Undergraduate Office immediately and provide them with the documentation necessary to justify your absence. You will keep good standing in the course ***only*** if the Undergraduate Office confirms the validity of your excuse. Any student who misses the mid-term will have all of the weight from that exam transferred to the final exam. ***The midterm will be on Wednesday, February 13, at 6-9 pm.*** Date and time for the final exam will be announced later.

Weighting

Project 1	10%
Project 2	10%
Midterm Exam	30%
Final Exam	50%

Note that these weights are determined at the beginning of the course and cannot be changed according to your performance in specific exams. Be aware that the project and exams are the only ways of obtaining credit for the course. No "extra credit" assignments or special agreements will be made for any student.

IV. Days without class

Monday Feb 18 and Wednesday Feb 20 (midterm break)

Monday March 24 (Easter Monday)

V. Last day of classes

Wednesday, April 9

Course Outline (may be subject to changes)

TOPIC	BACKGROUND MATERIAL
Introduction & Overview	Lecture 0 / Ch 1 & Ch 2
Financial Planning	Lecture 1 / Ch 3
Working Capital	
• Short-Term Financial Planning	Lecture 2 / Ch 27
• Financing Growth	Lecture 3 / Clarkson Lumber case
• ABC example & simulation	Lecture 4 / Excel spreadsheet
Capital Budgeting with Debt	Ch 8 & Ch 13 (quick background reading)
• The basics: WACC, APV, & FTE	Lecture 5 / Ch 18
• APV Example: Valuation of Delphi	Lecture 6
• When to use APV & Example	Lecture 7
Capital Structure	
• Raising Capital	Lecture 8 / Ch 15
• Review of Theory & Empirical Facts	Lecture 9 / Ch 16 & Ch 17
• Financial Distress Costs	Lecture 10a / Cutler & Summers article
• Financial Distress Costs	Lecture 10b / Ch 31
• Capital Structure & Product Market Competition	Lecture 11 / Massey-Ferguson, 1980 case
Information Asymmetries in Financial Markets	
• The Moral Hazard Problem	Lecture 12 / Ch 17.6
• The Adverse Selection Problem	Lecture 13 / Ch 17.5 & Ch 19 p548-p550
Real Options and Valuation	Ch 23 & Ch 24
• Valuation of a Call Option Review	Lecture 14
• Managerial Options & Capital Budgeting	Lecture 15