

ROTMAN SCHOOL OF MANAGEMENT
UNIVERSITY OF TORONTO
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MGT1330 - BUSINESS FINANCE
Winter 2001/2002

Course Objective:

The objective of this course is to introduce students to the basic functioning of capital markets and the essential theoretical ideas underlying the different functional areas of finance. For students intending to do further work in finance, this course provides the conceptual foundation for more advanced work. For students taking this course as a terminal course, this course provides basic exposure to the workings of financial markets and the situations handled in the different areas of finance.

Achieving the Objective:

By the end of their program Rotman finance majors should be able to solve a wide array of finance problems. However, complex finance problems can only be solved after the basic framework of finance has been mastered. Consequently, the Rotman finance courses have been structured so that MGT1330 develops the basic financial theory toolkit and applies it to mini-cases and problems. These problems are frequently not “realistic,” but the intent in MGT1330 is not to solve realistic problems, but to develop skills. The second year finance courses will then deepen the finance knowledge and apply these skills to more realistic “Harvard” style cases and live projects.

These skills will be developed in four ways:

First, the core material will be delivered in a conventional lecture format. The lectures will be based on a series of overheads that will be made available on the Rotman portal a week ahead of time. These overheads are *not* notes; it is not expected that they be an independent learning tool.

Second, after a particular module has been completed there will be a short mini-case or set of problems, so that the ideas can be applied.

Third, there has been an explosion in the availability of financial information. After several of the cases have been completed we will schedule a tutorial in the Rotman Finance Research and Trading Lab (FRTL). The intent is to show how the concepts taught in the mini cases and problems can be applied using live data available in the lab as well as demonstrate the proprietary tools built into Bridge and Bloomberg.

Finally, spreadsheets (VisCalc!) were originally designed to handle finance problems. A large amount of finance functionality is built into Excel, Quattro Pro and Lotus 123. This course offers people the opportunity to deepen their spreadsheet skills.

Required Course Text:

P. Lusztig, S. Cleary and B. Schwab, Finance in a Canadian Setting, (6th Ed.), John Wiley & Sons, 2001.

Recommended Casebook:

The assigned cases are all from J. M. Surlock & J. S. Dunkelberg, Cases in Financial Management, (second edition) John Wiley, 1997 and are included with the textbook.

Evaluation:

Since students enter this course with varied backgrounds in finance & economics, there will be opportunities to make up for any initial problems. In particular, the higher of the mid-term or final grade will automatically be included in place of the mid-term grade in the final average. The weighting scheme is:

Mid term examination	35%
Final examination	45%
Assignments	20%

The two starred (*) assignments will be prepared and handed in as group work for grading. Parts of the other cases and problems will be integrated into the lectures and discussed in class.

Office Hours:

The instructors are available at any time during regular working hours, except Mondays and Wednesdays due to teaching commitments, and also by appointment. The preferred method of communication is via e-mail. Posing questions via e-mail often forces the student to think through the problem and solve it for themselves! Failing that, we endeavour to answer questions within a couple of hours. Teaching assistants are also available for this course and will post office hours.

Note: Professor Booth will be responsible for the material up to the midterm exam and Professor Duan the subsequent material up to the final exam.

BUSINESS FINANCE MGT1330

	<u>Topic</u>	<u>Text Chapters</u>	<u>Cases</u>
Jan. 9	Introduction <ul style="list-style-type: none">• Goals of firms• Agency problems• Legal & tax environment	1	
Jan. 14	Function of Capital Markets <ul style="list-style-type: none">• Function of capital markets• Financial flows• Interest rate determination	2	
Jan. 16	Financial Analysis <ul style="list-style-type: none">• Financial ratios• Common size statements	3	
Jan 21	Financial Forecasting <ul style="list-style-type: none">• Sources and uses of funds statement• % of sales forecasting	4	Holly Fashions*
Jan 23	Time Value of Money <ul style="list-style-type: none">• Time value of money• Annuities	5	Tipton Ice Cream
Jan. 28	Bond Valuation <ul style="list-style-type: none">• Bond valuation models• Interest rate risk	6	Studebaker Financial Planning
Jan. 30	Equity Valuation <ul style="list-style-type: none">• Stock valuation models• Fed's stock valuation model	6	
Feb. 4	Risk and Return <ul style="list-style-type: none">• Quantifying risk• Covariance and correlation• Efficient sets	7	Home Products

Feb. 6	CAPM & Market Efficiency	8	
	<ul style="list-style-type: none"> • Capital market equilibrium • CAPM • APT 		
Feb. 11	Midterm Exam		
Feb. 18	Reading Week		
Feb. 25 & 27	Option Contracts	18	
	<ul style="list-style-type: none"> • Nature of options • Basic trading strategies • Option valuation 		
Mar. 4 & 6	Financial Instruments	13, 14, 19	
	<ul style="list-style-type: none"> • Debt and preferred equity • Common equity • Rights, warrants and convertibles 		
Mar. 11 & 13	Cost of Capital	15	Wonder Bars*
	<ul style="list-style-type: none"> • Nature of cost of capital • Weighted average cost of capital 		
Mar. 18	Capital Structure Planning	16	
	<ul style="list-style-type: none"> • Operating and financial leverages • Indifference analysis • Capital structure determination 		
Mar. 20 & 25	Capital Structure Theory	16	Shuckers (March 20)
	<ul style="list-style-type: none"> • Tax effects • Bankruptcy effects • Financial distress • Industry effects 		
Mar. 27 April 1	Dividend Policy	17	AT&T
	<ul style="list-style-type: none"> • Dividend theories • Taxes • Signalling 		

April 3 & 8	Investment Decisions I	10	Delaware Pipe
	<ul style="list-style-type: none"> • Cash flow analysis • NPV vs. IRR • Reinvestment rate assumptions 		
April 10&12	Investment Decisions II	11	Monterey Plastics
	<ul style="list-style-type: none"> • Risk assessment • Risk evaluation • Risk management 		
April 15	Investment Decision III	12	
	<ul style="list-style-type: none"> • Inflation • Interdependent projects • Rationing 		
April 17	Review		
April 22	Final Examination		