



# MICHIGAN ROSS SCHOOL OF BUSINESS

## Corporate Financing Decisions Finance 317 Winter 2012

Instructor:	Jason Kotter	Class Time:	MW 11:30 a.m. – 1 p.m.
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Twitter:	#FIN317	Location:	R3329

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### Course Overview:

How do firms choose their capital structure? How do firms actually raise capital? Should firms pay out dividends, repurchase shares or reinvest their earnings? How do firms hedge commodity price or interest rate risk?

Finance 317 is an advanced course in corporate financial management. The purpose of this course is to provide the conceptual foundations for making intelligent financial decisions by developing an understanding of modern corporate financial theory and practice. The course begins with a detailed study of capital structure theory with an in-depth analysis of market imperfections such as taxes, costs of financial distress, agency and informational issues. After a focus on payout policy, the course then introduces different financing instruments and strategy, followed by discussions of corporate liquidity management. As time permits, the course ends with discussion of special topics dealing with the market for corporate control, risk management, and corporate governance.

### Course Materials:

#### I. LectureTools:

LectureTools is a web-based presentation tool that allows you to use your computer to complete quizzes, ask questions, view lecture slides, and take notes. To register with LectureTools, click on the LectureTools link from within the course CTools site. LectureTools registration is free for University of Michigan students.

To use LectureTools, you will need to bring a laptop computer to class with you. Alternatively, you may register your cell phone number with LectureTools and then text me the answers to quizzes. You are responsible for any text messaging fees that you incur.

#### II. Textbook:

The recommended textbook for this course is:

- [Corporate Finance](#), Berk and DeMarzo, Prentice Hall, 2010, 2<sup>nd</sup> Edition.

I believe that the textbook is a valuable resource and a nice complement to the material covered in my lecture slides; however, the textbook is not required. Regardless of whether you choose to purchase the textbook, you will need to purchase access to the textbook's online homework program, MyFinanceLab.

There are three options to purchase access to MyFinanceLab. You can purchase a copy of the textbook bundled with an access code for a reduced rate from most textbook stores. Alternatively, you can purchase access to MyFinanceLab directly at [www.myfinancelab.com](http://www.myfinancelab.com). You can choose to purchase access to both MyFinanceLab and an electronic copy of the textbook for \$100, or access to just MyFinanceLab for \$50.

To set-up MyFinanceLab:

1. Go to <http://www.myfinancelab.com> and click the **Student** button, in the Register section.
2. Enter your Course ID: XL0S-G103-201Y-3UB2
3. Choose to **register an access code or to buy access**.
4. Follow the instructions to set up your login and password for your course.

### III. Other materials

You will need a calculator to solve problems on the homework, quizzes, and exams. You may use a financial calculator, graphing calculator, or basic scientific calculator on the exams. Although some financial calculator functions might be helpful for certain calculations, a basic scientific calculator is sufficient to solve the problems we will face in this class. Please bring this calculator to each lecture.

We will be using Twitter throughout the class. I encourage you to use an application to organize your Twitter activity. Two free options that you can download are Tweetdeck ([www.tweetdeck.com](http://www.tweetdeck.com)) and Seismic ([seismic.com](http://seismic.com)).

### Prerequisites:

This course requires that you complete the following courses (or equivalent) prior to this semester:

- Finance 300
- Mathematics sequence up to undergraduate calculus
- Basic undergraduate statistics (e.g., STATS 300)

### Evaluation:

Your course grade will be weighted as follows:

Homework:	10%
Group Work:	5%
Midterm (February 22, 2012):	30%
Final Exam (April 24, 2012):	40%
Class Participation:	10%

The grading policy conforms to the standard Ross grade distribution policy.

### **Homework (10%):**

There will be (approximately) weekly homework assignments submitted online via MyFinanceLab at [www.myfinancelab.com](http://www.myfinancelab.com).

Three important notes about homework:

1. Late homework is not accepted: the webpage for each assignment will be closed prior to the class-time on its due day and you will receive zero on the homework if you cannot finish it before the website is closed.
2. The flip side of this is that your lowest homework grade will be dropped. Thus one of the homework assignments is “free” and you can skip it if you choose. However, I don’t encourage this since the homework assignments are good preparation for the exams.
3. Homework must be submitted individually, but I encourage you to form study groups and discuss the problems with your fellow classmates. However, copying or splitting assignments is considered cheating and will be handled in accordance with the Academic Honor Code. You should be able to reproduce any solution you submit without recourse to your classmates.

### **Group Work (10%):**

I believe that working in small groups provides you an opportunity to strengthen your understanding of important concepts. Group work necessarily requires that you teach each other; the research suggests that teaching others new concepts is a powerful way to deepen your own understanding. In addition, most work with corporate finance will require you to work in small teams; consequently, it will benefit you to learn these skills now. Group work within this course will consist of two parts: in-class quizzes and a group project.

#### **I. In-class Quizzes (5%):**

Most lectures will include a short in-class quiz on material that we have previously reviewed, these quizzes will make up 5% of your course grade. These quizzes are open book, open note, open computer and are taken in groups. I will randomly assign groups of 3 or 4 students and post these groups to CTools; please sit close to your group during lectures. Please note the following points about quizzes.

- All quizzes will be completed using clickers; one clicker will be assigned to each group. Please pick up your clicker before class begins.
- You are expected to work together as a group to come to a consensus.
- There will be no makeup quizzes. If you are absent for any reason (including medical or family emergencies) you will receive no credit for quizzes that you miss. I recognize that occasionally you might have to miss class for reasons outside of your control, so I will drop your lowest two quiz scores.

- I recognize that group work provides incentives to free-ride. To counter these incentives, at the end of class I will ask each member of the group to assess their peers on a scale of 0 to 1. This assessment should represent your opinion about how much your peers contributed to the group. I will drop the highest and lowest assessment and take the average of the remaining assessments. Your final quiz grade will be equal to your actual quiz grade multiplied by the peer assessment factor.

**II. Group project (5%):**

The group project will be worth 5% of your course grade and will be completed with the same group that you use for in-class quizzes. Each group will select one company and analyze this company's current capital structure. Using the tools developed in the first half of the course, you will estimate how the value of this firm would change if they chose different levels of debt. The project will consist of a two-page write-up and an Excel file and will be due at the beginning of class on Wednesday, March 28. Additional details will be provided later in the course.

**Exams (70%):**

Midterm: February 22, 2012 (in class)  
Final Exam: April 24, 2012 (Location TBA) from 1:30-3:30 p.m. (no Michigan time)

Please note following points about exams.

- Exams are closed book, closed note, and closed computer.
- You are allowed to use a scientific calculator, financial calculator, or graphing calculator on the exams. You may not use your cell phone as a calculator.
- There will be no makeup midterm. If you miss the midterm because of a university approved emergency (e.g., medical or family emergency), the weight of the midterm will be moved to the final exam. Otherwise, missing the midterm will result in a score of zero.
- The final exam schedule is set by the University. In accordance with RSB policy, you can ask for an alternative exam time if you have four exams in one day or have a conflict with a religious holiday. If such issues arise, it is your responsibility to let me know as soon as possible.
- Notice that the final exam is not on Michigan time.
- Note that it is RSB policy to not consider recruiting activities as an excuse for a missed exam.

**Participation (10%):**

Participation can take many different forms. Examples of quality participation include (but are not limited to) in-class participation through thoughtful questions and answers that benefit all students and well prepared use of office hours.

As part of your participation grade, you are expected to keep up with current events. Perusing The Wall Street Journal, The Financial Times, or The Economist regularly will allow you to see how the topics and decisions we cover in class are put to use in the real world. To share these insights with each other, we will use Twitter. Please include the hashtag **#FIN317** in all twitter messages for this course.

To receive full participation points, you are expected to contribute relevant current event articles to our class Twitter discussion. Articles should be related to the material we are discussing in FIN 317. A good Twitter message links to a relevant article or blog post; a better message sparks discussion by including a question or short insight in addition to the link. There is no minimum number of tweets required for this course; it is the quality, rather than quantity of your Twitter participation that matters.

In addition to sharing current events, you are welcome to use **#FIN317** in any way that you find helpful. Previous students have used Twitter to set-up study groups, ask questions about specific homework problems, and discuss lecture material.

### **Class Etiquette:**

I strongly believe that technology increases our ability to learn. Unlike other courses that ban the use of computers and cell phones in class, this course requires them. However, I expect that you will use this technology appropriately.

Appropriate uses of computers and phones during class:

- Follow the lecture, submit quizzes, and take notes using LectureTools
- Check the class Twitter discussion (#FIN317) only during designated times
- Use financial websites to gather data necessary to complete in-class questions and quizzes

Inappropriate uses of computers and phones impair your ability to learn; more importantly, they distract your neighbors. As a result, I have a zero-tolerance policy for inappropriate use of technology. If one of your fellow students complains about your behavior, or I see you using your phones or laptops for something inappropriate, I will give you zero participation points for that day. If it occurs a second time I will give you a zero for the participation portion of your grade (recall that this is worth 10% of your total grade). If it occurs a third time, I will ask you to drop the course.

Examples of inappropriate uses of computers and phones during class include:

- Checking email
- Using Facebook
- Using Twitter outside of designated times or for discussions other than #FIN317
- Playing games
- Viewing any other website that is not related to completing an in-class question or quiz

When you have a job, you will be expected to stay on task even though you have a computer in front of you all day. Now is a good time to practice.

### **How to Succeed in this Course:**

There are many ways to be successful in this course. Here are a few tips:

- **Come prepared.** Our class time is limited, so I expect you to come ready to learn. Scanning the textbook chapters that we will cover in class before you arrive is a good way to prepare for lectures.

- **Solve problems.** Much of finance is quantitative. The best way to reinforce concepts (and prepare for exams) is to work and understand practice and homework problems. MyFinanceLab provides many additional problems for you to practice the skills we learn in class.
- **Work together.** While homework assignments must be your own work, studying in small groups can be very beneficial. Nothing instills concepts better than teaching them to someone else. A small group setting is ideal for this.
- **Don't fall behind.** If you are struggling with a concept, come to office hours, talk with your classmates, reread the text, etc. Some of the topics we will cover take some time to sink in. If you wait until the day before an exam to talk to me about problems you are having, it will be too late.

### **The Honor Code:**

Personal integrity and professionalism are fundamental values of the Ross Business School community. This course will be conducted in strict conformity with the Academic Honor Code. The Code and related procedures can be found at

<http://www.bus.umich.edu/Academics/Resources/communityvalues.htm>

The site also contains comprehensive information on how to be sure that you have not plagiarized the work of others. Claimed ignorance of the Code and related information appearing on the site will be viewed as irrelevant should a violation take place. Non-Ross Business School students taking the course should also familiarize themselves with the Code as they will be subject to the Ross Code while in this course.

### **Students with Disabilities:**

If you need an accommodation for a disability, please let me know as soon as possible. Some aspects of the course, the assignments, and the in-class activities may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat information you provide as private and confidential.

# Fin 317 Schedule

Date	Lecture Topic	Textbook Chapters	Homework Due:
1/9 (MON)	Intro and Review	3, 5.5, 12	
1/11 (WED)	Capital Structure in a Perfect Market I	14.1, 14.2	HW - Review
<b>MLK - NO CLASS 1/16</b>			
1/18 (WED)	Capital Structure in a Perfect Market II	14.3, 14.4	
1/23 (MON)	Debt and Taxes	15.1-15.3	HW #1
1/25 (WED)	Limits to the Tax Benefit of Debt	15.4, 15.5	
1/30 (MON)	Financial Distress	16.4, 16.1, 16.2	HW #2
2/1 (WED)	Distress and Agency	16.6,16.5	
2/6 (MON)	Asymmetric Information	16.8	HW #3
2/8 (WED)	Alt. Capital Structure Theories & Payout Policy	17.1-17.4	
2/13 (MON)	Payout Policies (pt 2)	17.5-17.7	HW #4
2/15 (WED)	Valuation with Leverage	18.1,18.2,18.5	
2/20 (MON)	Blaine Kitchenware Case	Case Materials	HW #5
2/22 (WED)	<b>Midterm Exam During Class</b>		
<b>WINTER BREAK: NO CLASS 2/27 &amp; 2/29</b>			
3/5 (MON)	Raising Equity Capital I	23.1,23.2	
3/7 (WED)	Raising Equity Capital II	23.3,23.4	
3/12 (MON)	TRX, Inc. IPO Case	Case Materials	HW #6
3/14 (WED)	Leasing	25.1,25.3-25.4	
3/19 (MON)	Debt Financing	24.1,24.2	HW #7
3/21 (WED)	Debt Financing	24.4	
3/26 (MON)	Liquidity Management & Working Capital	26	HW #8
3/28 (WED)	Short-term Financial Planning, GM Case	27	
4/2 (MON)	Mergers & Acquisitions I	28.1-28.3	HW #9
4/4 (WED)	Mergers & Acquisitions II	28.4-28.6	
4/9 (MON)	Roche's Acquisition of Genentech Case	Case Materials	HW #10
4/11 (WED)	Optimal Capital Structure, Big Picture Overview		Group Project
4/16 (MON)	Review for Final		HW #11
4/24 (TUES)	<b>Final Exam, 1:30 – 3:30 pm, E1530</b>		