DUKE UNIVERSITY
Fuqua School of Business

Finance 251F
FOUNDATIONS OF CORPORATE FINANCE
COURSE SYLLABUS

Prof. Simon Gervais Spring 2010 – Term 1

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     • www.pearsoncustom.com/nc/duke_fin/fin251.html (MyFinanceLab)
Office Hours:
     • My schedule will be announced every week on my website.
     • Also by appointment.

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Course Description

This course examines important issues in corporate finance from the perspective of financial managers who are responsible for making significant investment and financing decisions. The concept of net present value, suitably adapted to account for taxes, uncertainty, and strategic concerns, is used to analyze how investment and financing decisions interact to affect the value of the firm. The course covers topics that are important to decision-making in marketing, operations management, and corporate strategy.

A large portion of the course covers capital budgeting, first without uncertainty, and then in the presence of uncertainty. Throughout, emphasis is placed on the interaction between (corporate and personal) taxes and the cost of capital. Topics covered in this context will include leasing and leveraged buyouts. The course also includes a treatment of dividend policy and capital market efficiency, as they relate to the value-maximization objective of the firm.

While the course is not designed to dwell on abstraction, the basic theoretical underpinnings of the various topics are a prerequisite to competent analysis and intellectual discussion. We emphasize the development of problem-solving skills based on a good understanding of the business environment as opposed to pure theorizing or mindless numbers exercises. Because of the practical importance of the material and as an illustration of the relevant theory, we will discuss examples and cases.
Prerequisites

The only formal prerequisite for this course is Foundations of Capital Markets (Finance 250F). In fact, the course makes use of mathematical and statistical manipulations at the same level as in this prerequisite course. Calculus will not be used in this course at all. Some basic familiarity with Excel will be assumed.

Course Material

The required textbook for the course is:


The textbook should be purchased with the option to access the web materials offered by Pearson (MyFinanceLab). These materials will be used for homeworks and course grading (more on this below).

Also required for the course is a readings pack, which includes the cases that will be covered in the course as well as assorted readings. My lecture notes will be distributed in class and made available online (as pdf files). Similarly, if necessary, additional handouts will be either distributed in class or made available on the course’s website (www.duke.edu/~sgervais).

Grading

The course grade will be based on one midterm exam, one final exam, two case reports done in teams (20% of your final grade), three individual case assignments (10% of your final grade), and individual online homeworks (5% of your final grade). ¹ The rest (65%) of your final grade will consist of your midterm exam and final exam weighted equally. However, if your score in the final exam is better than your score in the midterm exam, your final exam will be given twice the weight of your midterm exam (i.e., 2/3 and 1/3 of 65%). The exam schedule will be as follows:

Midterm exam: Monday, 15 February, in class.

Final exam: March 6-9 exam period, date/time to be announced later.

The midterm exam will cover the material already discussed up to that point. The final exam is comprehensive, that is, it will cover the material for the entire course. Both exams will be closed-book exams, but you will be allowed to bring one “cheat-sheet” on which you can write down some notes.

Finally, I reserve the right to add or subtract as much as 3% based on your participation, attendance and answers to random “cold-calling” throughout the course (a neutral performance will lead to no adjustment at all). In fact, for this reason, I require that *all students attend the section of the course for which they are registered*.² Note also that this adjustment will take into account the teammate evaluations that each case-writing team will be asked to make (more on this below).

Your letter grade for the course will be based on your ranking in the course (curve), and on performances/scores that I consider reasonable. I try to follow the grade distribution recommended by Fuqua for its MMS program.

¹ Assignments that are not completed or handed in on time automatically receive a grade of zero.

² Please do not email or call to tell me that you will attend a different section on any given day, as these requests will be ignored.
Make-up Exams

There will be absolutely no make-up exam for the midterm exam. If a student cannot take or even chooses not to take the midterm exam, the final exam will count for 65% of his/her final grade. There is no need to notify the instructor in that event.

There will be an official make-up final exam for the students who, for some reason, cannot attend the final exam. This will only be considered for *extraordinary circumstances*, and official approval from the registrar and/or the MMS program office will be required. A form to get the appropriate permissions will be available on the course’s website. The exact date/time/location of the make-up exam will be announced during the term.

Please note that the final exam for this course will be scheduled during the term by the school’s registrar; I have no control over that schedule. By taking this course, students agree to being available for a final exam to be scheduled during the official exam period for the program (March 6-9). As such, students should plan to be in Durham for that entire period of time. Early travel departures will not qualify for the make-up exam nor will they be accommodated with any kind of rescheduling.

Team Cases

Preparation for the teams cases is done in groups of four or five. Word-processed write-ups (three to five pages of text plus supporting material such as spreadsheets, figures and tables) are due at the start of the case discussion. The two cases for which you are expected to write a team report are:

- Marriott Corporation;
- Congoleum Corporation.

All students should come to class ready to discuss issues relevant to the assigned case. To ensure that all group members contribute to the case analysis and write-up, each of you will be asked to evaluate the effort of the other members of the same group at the end of the term. This evaluation is a factor in assigning grades.

The cases are an integral part of the course design. For each case, I will provide you with a hint sheet designed to help focus your analysis. The questions outlined therein are meant to be suggestive but not exhaustive and, therefore, neither the substance nor the organization of your write-up should be limited because of the hint sheet. The following are some general guidelines for preparing case write-ups:

- Highlight your main conclusions in an executive summary (no more than one page) that contains specific results from your analysis.

- Identify the objective and the main issues of the case.

- The main body of your analysis should be self-explanatory and reasonably self-contained. That is, the reader should be able to replicate your results by tracing through the write-ups/spreadsheets.
• State clearly the inputs to your analysis and the chosen methodology. If you feel that certain assumptions need to be made to justify a solution technique or a parameter choice, please make the assumption explicit.

• Justify your findings by providing the intuition. Where appropriate, perform sensitivity analysis and discuss the robustness of your results.

The cases will be discussed in an open, roundtable type of discussion. This requires that each student come to class prepared to discuss the case, even the ones who are just auditing the course. I may cold-call individual students for comments or discussion.

Individual Cases and Homeworks

In addition to the case analysis that will be done in teams, I will assign three cases whose analysis and preparation should be done on an individual basis. These cases will be shorter than the team cases; in fact, they will feel more like long problems. Again, detailed hint sheets will be provided for each case, along with instructions for the report that each student must turn in.

To make sure that everyone keeps up with the pace of the course, I will assign periodic homeworks from MyFinanceLab, Pearson’s website for the textbook by Berk and DeMarzo. The site can be accessed from the following address: www.pearsoncustom.com/nc/duke_fin/fin251.html. Each of these individual homeworks are to be completed within a deadline that will be announced in class and on the course’s website. Homeworks that are not completed in time will be automatically given a grade of zero.

Problem Sets

In addition to the cases and homeworks, a number of problem sets will be assigned throughout the term. These problems are structured to reinforce the major themes in the course material and to provide a flavor for what might be encountered on the exams. Write-ups for these problem sets will not be collected or graded but you should consider them mandatory.

Make sure that you attempt the problems ‘on your own’ without first looking at the solutions (which will be provided). Otherwise, you may later realize (perhaps as you are taking the exam!) that you did not understand a problem as well as you thought. These problem sets will form the basis for the regular problem-solving sessions that will be headed by a teaching assistant.

Logistics

My notes/slides for every lecture will be posted on my website following the lecture. Similarly, problem sets (and solutions) about the material covered in class will be posted on my website on a regular basis (usually after every lecture). Students are expected to consult my website (which will be used as the course’s website) on a regular basis, as all announcements and changes to the course will be posted there.

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3 Auditors are not required to submit case reports or to take the two exams.
4 Instructions for how to access the website will be provided in class.
Regrading Policy

Regrade requests for each exam must be made within one week after the graded exams are distributed back to students. All such requests must be made using a Regrade Request Form that will be downloadable from my website following the distribution of graded exams. In making your requests, keep in mind that the whole exam is subject to regrading.

Teaching Assistants

A few students who have previously taken and done well in this course (or in a similar course) will be assisting me for this course. Their names, functions and schedules will be posted on my website and announced in class.

Calculators and Computers

You will definitely need a calculator for the course (and the two exams). Any calculator that has a $x^y$ button will do. In fact, when constructing the exams, I will make sure that the people who do not have a fancy calculator are not at a disadvantage. Laptop computers, cell phones and PDA’s (personal digital assistants) will not be allowed for the two exams.

Honor Code

Students are expected to adhere to the school’s Honor Code, which I take very seriously. In particular, it a violation of the Honor Code for students to access solutions to the cases before turning in their write-up. Similarly, it is a violation of the Honor Code for students to consult each other (other teams) for individual (team) case write-ups and individual online homeworks.
Course Schedule

The following schedule shows the topics that will be covered in each of the term’s lectures. This schedule should be considered tentative, as it is likely to change during the course, depending on various factors. Should changes be made, they will be posted on my website and announced in class. My website will always contain the latest schedule, and so students should refer to it, as opposed to this schedule, from now on.

Lecture 1
The finance function and the financial manager; the goal of the firm and the NPV rule; capital budgeting under certainty; annuities and perpetuities.

• Berk and DeMarzo, sections 3.1, 3.2 and 3.3;
• Berk and DeMarzo, chapter 4;
• Berk and DeMarzo, sections 7.1 and 7.2;

Lecture 2
Case - Harris Seafoods, Inc. (part I); carry-backs and carry-forwards; the CAPM; capital market efficiency.

• Berk and DeMarzo, sections 6.1 and 6.2 (up to page 156);
• Berk and DeMarzo, chapter 10;
• Berk and DeMarzo, chapter 11;
• Berk and DeMarzo, sections 12.1 to 12.4.

Lecture 3
Capital structure without taxes; capital budgeting without taxes; capital structure with corporate taxes.

• Berk and DeMarzo, chapter 14;

Lecture 4
Case - Cost of Capital at Ameritrade; weighted average cost of capital; capital budgeting with corporate taxes; multiples and leverage.

• Berk and DeMarzo, sections 15.1 and 15.2;
• Berk and DeMarzo, sections 18.1 and 18.2;
Lecture 5
Case - Marriott Corporation; adjusted present value.
  • Berk and DeMarzo, section 18.3;

Lecture 6
Case - Harris Seafoods, Inc. (part II).

Lecture 7
*Midterm exam*

Lecture 8
Leasing; case - Sampa Video, Inc.
  • Berk and DeMarzo, chapter 25;

Lecture 9
Other considerations in capital structure.
  • Berk and DeMarzo, sections 16.1 to 16.5;

Lecture 10
Case - Burlington Northern Railroad Company; leveraged buyouts; RADR, WACC and APV.
  • Berk and DeMarzo, chapter 28;

Lecture 11
Payout policy (I); payout policy (II).
  • Berk and DeMarzo, sections 17.1 to 17.6;

Lecture 12
Case - Congoleum Corporation.