

**York University
Schulich School of Business**

Finance 6100 - Financial Management

Section F – Monday – 2:30 pm to 5:30 pm

Section X – Monday – 7:00 pm to 10:00 pm

Section Y – Wednesday – 7:00 pm to 10:00 pm

Winter 2009

Instructor: Debarshi Nandy

Office: SSB N226

Email: dnandy@schulich.yorku.ca

Phone: (416) 736 -2100 ext. 77906

Office Hours: Wednesday 3:00 pm to 6:00 pm. All other times by prior appointment. Please email me to make an appointment.

Course objectives:

The objective of this course is to provide an analysis of the major issues affecting the financial policy of a modern corporation. We will first review some of the important theoretical and empirical work in each area before going on to discuss real-life cases dealing with the major issues of financial policy facing the firm, such as its choice of dividend policy, capital structure and related financing choices, the role of venture capital financing, the going-public decision, the impact of agency problems between firm management and security holders and between different classes of security holders on corporate governance (and different ways of solving such agency problems), as well as mergers/takeovers and other restructuring decisions. In this context, we will also discuss the valuation of firms and the use of various financial instruments. The purpose of this course is to develop your skills as a financial manager. The course builds on the basics of financial management covered in FINE 5200. **Note that this syllabus is preliminary and may change as the course progresses.**

Course materials

Background Text: *Fundamentals of Corporate Finance*, 6th Canadian Edition, Ross, Westerfeld, Jordan and Roberts, McGraw-Hill Ryerson, 2007. (RWJR)

Recommended Text:

- *The New Corporate Finance*, 3rd edition, Donald Chew, editor, Irwin/McGraw-Hill, 2001 *On reserve in library.*
- Ross, Westerfeld, Jaffe, and Roberts, *Corporate Finance*, 5th Canadian Edition, McGraw-Hill, 2008. *On reserve in library.*

Optional Materials:

- Copeland, T.A., and J.F. Weston, *Financial Theory and Corporate Policy*, Addison-Wesley Publishing Company, 3rd Edition, 1988.

Cases and Additional Readings: Will be handed out in class, distributed via the CMD, or are included in the Course kit. Some other readings may be put on reserve in the library.

Advanced Reading: These materials will **not** be included in the exams, you should read them if you have additional interest in the topic.

Problem Sets: You will also be provided with additional practice problems on various topics. While these problem sets are not to be handed in; however, I cannot overemphasize the importance of working these out in detail by yourselves. The exam problems are very often modeled on the problems in these problem sets.

Student Evaluation:

Mark Allocation:

Assignments - Group	20%
Midterm Exam	30%
Final Exam	45%
Class Participation	5%
Total	100%

The course will be graded according to the **Schulich Grading Guidelines:** The average final grade for SSB course offered in the MBA should be between 5.2 and 6.2 for elective courses in the MBA program. Any student who obtains less than a passing average on the examinations may not pass the course.

Written Group Assignments

The written assignments offer an opportunity for you to receive feedback and to monitor your progress. The written group assignments for handing in can be completed in groups of **no more than five people in your section. Please do not team up across sections.** You are encouraged but under no obligation to work in a group.

Written assignments are due at the start of the class. Late assignments will not be accepted.

Under no circumstances will faxed or e-mailed assignments be accepted. If you are unable to personally hand in your assignment, make arrangements for a classmate to hand it in for you or mail it in. Late penalties will not be applied provided the envelope is post-marked by the due date.

Each case write-up must include an **executive summary** (maximum length one page) outlining key issues and recommendations. The main body of the report **must be no longer than 8 pages**, double spaced. Figures and tables should be put in an appendix at the end of the paper. All figures and tables must be numbered and all pages, including pages with tables and figures must be numbered.

Assignment # 1 Tentative Due date: Feb 25th.
Assignment # 2 Tentative Due date: March 23rd.

Assignment Due dates will be confirmed in class.

Cheating

The instructor enforces all Faculty rules, especially those regarding academic honesty. Note: there is a zero tolerance level in this area. Plagiarism is cheating. The use of another's material without permission and without recognition is cheating. This applies to text books, solution manuals, study guides, a friend's assignment, past assignments, Internet resources or any other material irrespective of the source.

Exams:

Midterm exam: An 90-minute midterm exam will be held mid way through the term. You may bring in **one 8 ½ X 11 inch** sheet of paper with any notes and/or formulas (in English) that you wish. You may use both the back and front of the formula sheet. You must hand in the formula sheet at the conclusion of the exam. You may also bring a calculator. Computers are not allowed.

Final Exam: The final exam will be cumulative and 3 hours long. You may bring in **two** 8 ½ X 11 inch sheet of paper with any notes and/or formulas (in English) that you wish. You may use both the back and front of the formula sheets. You must hand in the formula sheets at the conclusion of the exam. You may also bring a calculator. Computers are not allowed.

Class Contribution

Contribution is an essential component in the overall education experience. Contribution takes many forms: asking informed questions in class, making intelligent comments, reading the case and being prepared to discuss the issues, actively listening to your peers and working with others. Please remember that quantity is no substitute for quality.

There will be ample opportunity to contribute to the class. The format of the in-class discussions of cases may take a variety of forms including: group analysis of single case issues during class, presentation of issues, leading discussions of the case issues

As part of the class contribution grade each student will be asked to provide a 1 page summary of an article to be discussed in class.

You will also do a 1 page self-assessment of your contribution and hand this in at the final exam.

It is your responsibility to ensure that you take an active role in the class. If this is a problem for you, I urge you to talk to me to discuss ways you can make a contribution. If you wish to receive credit for participating I suggest that you make use of your name plate. The grading for class contribution in each class is as follows:

Grade	Contribution
0	Does not show up for class
1	Attends class but says very little
2	Contributes to the discussion - most of the contributions are not highly original but demonstrate basic understanding of the case or material - i.e. summarizes case facts or asks questions for clarification and is usually prepared, having read the cases before the class
3	Makes a significant contribution to the class by making important points with a significant element of originality or demonstrating mastery of difficult theoretical issues or concepts; is always prepared having read and analyzed all cases prior to class, shares in class presentations, contributes to in-class group work

Tentative Class Schedule

Note: I reserve the right to add and remove readings from the course. I will give you notice of any changes. I reserve the right to adjust the lecture schedule.

RWJR refers to *Fundamentals of Corporate Finance*, Ross, Westerfeld, Jordan, and Roberts, 6th edition. *TNCF* refers to *The New Corporate Finance*, and *Kit* refers to the course kit.

Date And Material Due	Topic and Class Preparation
Week 1	<p>The Risk-Return Relationship and Introduction to Corporate Governance</p> <p>Reading:</p> <ol style="list-style-type: none"> 1. RWJR Ch 12, 13 and 14 (for review) 2. Lecture Notes: Section 1 and Section 2 (for review) 3. <i>Kit</i> "An Alternative view of Risk and Return: The Arbitrage Pricing Theory" 4. <i>Kit</i> "Canadian Coalition for Good Governance." <p>Additional Reading:</p> <ol style="list-style-type: none"> 5. Graham, John R., and Campbell R. Harvey, 2001, "The theory and practice of corporate finance: Evidence from the field", <i>Journal of Financial Economics</i> 60, 187-243. <p>Do: Problem Set 1</p>
Week 2	<p>Capital Structure Theory: MM World</p> <p>Reading:</p> <ol style="list-style-type: none"> 1. Lecture Notes: Section 3 2. RWJR Ch 16 pp 479 – 494. <p>Capital Structure Theory: "Real world with Asymmetric Information, Taxes and Bankruptcy costs"</p> <p>Reading:</p> <ol style="list-style-type: none"> 1. Lecture Notes: Section 4 and Section 5 2. RWJR Ch 16 pp 494 – 506. <p>Advanced Reading:</p> <ol style="list-style-type: none"> 3. Jensen, Michael C., and William H. Meckling, 1976, "Theory of the firm: Managerial behavior, agency costs and ownership structure", <i>Journal of Financial Economics</i> 3, 305-360.
Week 3	<p>Capital Structure Theory (cont'd): "Real world with Asymmetric Information, Taxes and Bankruptcy costs"</p> <p>Reading:</p> <ol style="list-style-type: none"> 1. <i>TNCF</i>: Barclay & Smith , "The Capital Structure Puzzle – Another look at the evidence" 2. Ross, Westerfeld, Jaffe, Roberts: Chs 17, 23 (pp. 671 – 678 only), 31, and Appendix 31A. <p>Advanced Reading:</p> <ol style="list-style-type: none"> 3. Myers, Stewart C., and Nicholas S. Majluf, 1984, "Corporate financing and investment decisions when firms have information that investors do not have", <i>Journal of Financial Economics</i> 13, 187-221. <p>Do: Problem Set 2</p> <p>Do: Assignment 1: Case Study on Airbus A380 - Developing the World's Largest Commercial Jet (A).</p>

Week 4	<p>Executive Stock Options Readings: 1. Lecture Notes: Section 6 2. <i>Kit</i>: “Six Challenges in Designing Equity-Based Pay”</p> <p>Dividend Policy Readings: 1. Lecture Note: Section 11. 2. RWJR Ch 17. 3. Ross, Westerfeld, Jaffe, Roberts, Ch 19.</p> <p>Do: Problem set 3</p>
Week 5	<p>Dividend Policy (Continued) In Class Discussion of Case: Dividend Policy at FPL group Inc. (A)</p> <p>Valuation Readings: 1. RWJR Ch 14, Appendix 14A pp. 439 – 444 and Appendix 25A. 2. Ross, Westerfeld, Jaffe, Roberts, Ch 18, 23 (pp. 648 – 671, 681 – 682), and 24 (pp. 697 – 700). 3. <i>Handout</i>: Valuation and Capital Budgeting for the Levered Firm</p> <p>Do: Problem set 4</p>
Week of Feb 16	<p>No Class – Family Day and MBA Reading Week</p>
Week 6	<p>Venture Capital and the Early Stages of Financing Reading: 1. Lecture Notes: Section 8 2. <i>Handout</i>: Note on Venture Capital in Canada Additional Reading: 3. Sahlman, William A. “Aspects of Financial Contracting in Venture Capital,” <i>Journal of Applied Corporate Finance</i>, 1, pp. 23-36. Advanced Reading: 4. Megginson, William L., and Kathleen A. Weiss. 1991. “Venture Capital Certification in Initial Public Offerings,” <i>Journal of Finance</i>, 46, pp. 879-903.</p> <p>Do: Problem set 5</p>
Week 7 Week of Mar 2	<p>In Class Mid-term exam on Monday, March, 2nd and Wednesday, March 4th.</p>
Week 8	<p>Raising Financing – Equity – Initial Public Offerings (IPOs) and Seasoned Equity Offerings (SEOs) Reading: 1. RWJR Ch 15, pp. 448 – 465. 2. Lecture Note: Section 9. 3. TNCF: Ibbotson, “Initial Public Offerings”.</p> <p>Additional Reading: Price Waterhouse Coopers – The Guide to Going Public</p> <p>In Class Case Discussion on IPOs.</p> <p>Assignment 2: Case on Apex Investment Partners (A)</p>

Week 9	<p>Raising Financing –Other sources of financing – Rights, Warrants and Convertible Bonds</p> <p>Reading:</p> <ol style="list-style-type: none"> 1. RWJR Ch 15, pp. 465 – 472 and Ch 25, pp. 772 – 780. 2. Ross, Westerfeld, Jaffe, Roberts, Ch 25. 3. Stein, Jeremy C., 1992. “Convertible Bonds as Backdoor Equity Financing,” <i>Journal of Financial Economics</i>, 32, pp. 3-21. <p>Do: Problem Set 6</p>
Week 10	<p>Financial Innovations: The Case of Mandatory Convertibles</p> <p>Readings:</p> <ol style="list-style-type: none"> 1. Lecture Notes: Section 10 2. <i>Kit</i>: Arzac, E. R., “PERCS, DECS, and other Mandatory Convertibles.” <p>Advanced Reading:</p> <ol style="list-style-type: none"> 3. Chemmanur, Thomas, Debarshi Nandy and An Yan, 2003, “Why Issue Mandatory Convertibles? Theory and empirical evidence.
Week 11	<p>Mergers & Acquisitions</p> <p>Reading:</p> <ol style="list-style-type: none"> 1. RWJR Ch 23 2. <i>Kit</i>: Eccels et al, “Are you paying too much for that acquisition?”
Week 12	<p>Mergers & Acquisitions (Continued)</p> <p>Reading:</p> <ol style="list-style-type: none"> 1. Ross, Westerfeld, Jaffe, Roberts, Ch 30. 2. <i>Kit</i>: Positioning for Growth: Carve-outs and Spin-offs. <p>Do: Problem Set 7.</p>
Week of April 20	Final Exams – by University Schedule.