Course Contact Information

Professor: Mark Westerfield
Office: PCAR 436
Office Hours: By appointment
Phone: 206-543-4578
Email: mwesterf@uw.edu

Classroom: Paccar 391
Class Time: MW 6:00-7:40pm or 7:50-9:30pm

Class Website: canvas.uw.edu

Teaching Assistant: Michael Wittry
Review Session: Sunday in PCAR 391, Time TBD
Office Hours: By appointment
Email: mwittry@uw.edu

I am on campus and available for office hours most days, including Monday and Wednesday before and after class. Please do not hesitate to email me.

Course Description and Goals

“Price is what you pay. Value is what you get.” – Warren Buffett

The goal of this course is to introduce the theory and practice of financial decision making. We take two perspectives: corporate managers and outside investors. At the end of the class, you should have a structure for thinking about potential projects and investments and the ability to analyze opportunities in a systematic way.

This course uses a combination of lecture and case studies. The lecture is intended to provide you with rigorous analytical tools; the cases are an opportunity to use those tools in practical settings. In combination, the lectures and cases are intended to turn you from consumers of information to producers of rigorous analysis.

This course covers the foundations of corporate finance. We will discuss many of the financial decisions made by managers both within the firm and in their interactions with investors. The core skill is valuation: valuation of projects, opportunities, and decisions.
Topics include the criteria for making investment decisions, valuation of assets and liabilities, the relationship between risk and return, and capital structure (financing) choice.

Course Policies

Materials

- Textbook: “Corporate Finance: The Core” by Jonathan Berk and Peter DeMarzo, 3rd edition. This book contains detailed explanations, additional examples, and practice questions, all of which will help you gain a better understanding of the concepts covered in class. You can also buy ”Corporate Finance”, but this has more than we will use, and it is more expensive. You don’t need MyFinanceLab. The recommended readings are listed in the course outline.

- Course Pack: The course pack contains the cases we will cover. It can be purchased from Harvard Publishing at https://cb.hbsp.harvard.edu/cbmp/access/43265918.

- A financial calculator. You should bring it to class every day and use it on the quizzes, assignments, and exams. I will use the HP 17bII+, but any calculator with financial functions is acceptable. Students have used the HP-12C (Platinum) and the TI-XX series (that have financial functions) with success.

- Access to a laptop with Excel or an equivalent spreadsheet program. You will need this for the case assignments.

Prerequisites

You do not need a background in finance to succeed in this course. However, I will assume that you know all materials covered in the Jump Start program. The Jump Start materials can be found on the course website.

Grading

Your course grade is made up from the following components:

- Four group case assignments: $4 \times 8\% = 32\%$  
- Two group problem sets: $2 \times 4\% = 8\%$
- Seven individual assignments: $7 \times 2\% = 14\%$
- Midterm Exam 20\%  
- Final Exam 26\%
Six assignments have both individual and group components. You will turn in two separate documents, one individually, and one as a group (see below). You should do the individual portion first, and then meet with your group for the group component. Your group is a resource, and the individual and group questions are related. If you realize you made a mistake on the individual portion during the group discussion, go back and fix it. However, do not use your group as an answer key.

**Cases**

There will be four group case assignments and two group problem sets. You should work on these assignments with your study team. Each team will give me their write-up at the beginning of class. We will discuss cases and problems in class, so make sure that you keep a copy of your notes or write-up to refer to during the discussion.

Your write-ups will include spreadsheet work. For calculations in Excel, please spell out the formula being used so that we can re-construct your work from a printed document.

For each case, you will create one Powerpoint slide that summarizes (with the important numbers/tables) your write-up. Email me the Powerpoint at least 20 minutes before the start of class. For at least the first two cases, we will go through all of the Powerpoints in class. In addition, if you are a discussion leader, I will put your Powerpoint slide on the overhead.

Each case write-up will be graded out of ten points. The first nine points are awarded for the accuracy, depth, and conciseness of the reports, together with your group’s in-class participation during the case discussion. Participation grades are based on the quality of your comments rather than the quantity. The final point is for insightful information or analysis that was not explicitly asked for.

Even though form without substance is meaningless, please remember that form still matters. You should prepare all graded materials in a form that meets professional standards. These standards include but are not limited to dating all material, numbering the pages, labeling graphs and tables, and expressing yourself in a legible, concise and grammatically correct manner.

**Exams**

There is an in-class, closed-book midterm on Monday, February 1 and an in-class, closed-book final exam on Wednesday, March 16. A formula sheet will be provided (no “cheat sheets” allowed). A financial calculator will be needed to solve some of the problems, and no laptops may be used.

In case an emergency or unavoidable obligation prevents you from taking an exam, you should contact me as soon as possible (before the exam) so that we can arrange an alternate time.

There can be mistakes in grading. If you believe there has been a significant mistake in grading one of your exams (or assignments), you should contact me in writing within one week of the receipt of your grade. I will re-grade your entire exam/assignment, so your grade may go up or down as a result.
Review Sessions

The TA will hold review sessions almost every Sunday in Paccar hall. During these sessions, the TA will summarize the week’s most important learning objectives, solve some of the recommended textbook problems, and work through other relevant exercises. If you are struggling with the material, you are strongly encouraged to attend the sessions.

Accommodations

I and the University of Washington are committed to ensuring that students with a documented disability have equal opportunity to participate in the educational opportunities of this class. To request academic accommodations due to disability, please contact the Disability Resources for Students Office (DRS), 448 Schmitz, 206-543-8924. If you have a letter from DRS please present the letter to me so that we can discuss the accommodations that you might need in this class.

Honor Code

I employ the principles and procedures from the Foster School of Business MBA Honor System to maintain academic integrity in the course. The Honor Code expressly prohibits cheating, attempted cheating, plagiarism, and lying to the administration or faculty as it pertains to academic work. Suspected violations of the Honor Code will be referred to the Foster MBA Honor Council.

Professionalism

You should attend all classes. If you are not able to attend a class session, please email me in advance. Each student is expected to be on time and prepared for each class meeting, fully engaged in class content, and respectful of fellow students’ attempts to do the same.

Laptops are required for case discussions (since you’ll need to be able to discuss your answers), and forbidden for other lectures. In addition, you must refrain from using technologies that distract your fellow students (e.g. texting, talking on the phone, etc.).

Feedback

It is important to me to know about any concerns or questions that you have. I also appreciate comments on the course, in particular about lectures or assignments that you found particularly helpful or not. Please feel free to come to my office or send me an email if you would like to talk to me. You can also filter feedback through the core reps.
Schedule

Part 1: Bonds, Stocks, and Capital Budgeting

Meeting #1:  Monday, January 4
Topics:  Introduction and review of the time value of money
Textbook:  Chapter 3 and Jump Start material (Chapters 4, 5.1, 6.1)

Meeting #2:  Wednesday, January 6
Topics:  Bond pricing
Textbook:  Chapters 5 and 6

Meeting #3:  Monday, January 11
Topics:  PROBLEM SET: Foster Capital
          NPV, IRR, and other investment criteria
Textbook:  Chapter 7
Deliverable:  Individual and Group Assignments #1

Meeting #4:  Wednesday, January 13
Topics:  Capital budgeting and free cash flows
Textbook:  Chapter 8

Holiday:  Monday, January 18

Meeting #5:  Wednesday, January 20
Topics:  CASE: Ocean Carriers
Deliverable:  Individual and Group Assignments #2

Meeting #6:  Monday, January 25
Topics:  CASE: PlanetTran
Deliverable:  Individual and Group Assignments #3

Meeting #7:  Wednesday, January 27
Topics:  PlanetTran, continued; review

Midterm Exam:  Monday, February 1, in class
Part 2: Risk, Return, and the CAPM

Meeting #9: Wednesday, February 3
Topics: Historical risk and return; diversification
Textbook: Chapter 10 (10.1-10.5)

Meeting #10: Monday, February 8
Topics: PROBLEM SET: Alex Sharpe’s Portfolio
Optimal Portfolio Choice
Textbook: Chapters 10 and 11 (10.6-10.8 and 11.1-11.3)
Deliverable: Individual and Group Assignments #4

Meeting #11: Wednesday, February 10
Topics: The Capital Asset Pricing Model (CAPM)
Textbook: Chapters 11 and 12 (11.4-11.8 and 12.1-12.3)

Holiday: Monday, February 15

Part 3: Valuation and Capital Structure

Meeting #12: Wednesday, February 17
Topics: Capital structure and the cost of capital
Textbook: Chapters 12, 14 and 15 (12.4-12.7, 14, 15.1-15.2, and 15.5)
Deliverable: PROBLEM SET: Individual Assignment #5

Meeting #13: Monday, February 22
Topics: CASE: Midland Energy Resources, Inc.
Deliverable: Individual and Group Assignments #6

Meeting #14: Wednesday, February 24
Topics: Capital structure and financial forecasting
Textbook: Chapter 16 (16.1-16.7 and 16.9)

Meeting #15: Monday, February 29
Topics: CASE: Flash Memory, Inc.
Deliverable: Individual and Group Assignments #7

Meeting #16: Wednesday, March 2
Topics: Debt markets and the financial crisis
Meeting #17: Monday, March 7
Topics: GUEST SPEAKER

Meeting #18: Wednesday, March 9
Topics: Course conclusion

Final Exam: Wednesday, March 16