Michael G. Foster School of Business
University of Washington

MBA Core Managerial Finance – BA 500 – Fall 2018
Prof. Thomas Gilbert

Syllabus

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

This course covers the foundations of finance with an emphasis on applications that are vital for corporate managers and investors. We will discuss many of the major financial decisions made by managers both within the firm and in their interactions with investors. Essential in most of these decisions is the process of valuation, which will be an important emphasis of the course. Topics include criteria for making investment decisions, project valuation, company valuation, relationships between risk and return, market efficiency, and capital structure choice.

Classroom: PCAR 390
Class time: Mondays and Wednesdays, 8.30am – 10.20am (A) or 10.30am – 12.20pm (B)
Course website: Canvas

Instructor: Thomas Gilbert
Email: gilbertt@uw.edu
Office: PCAR 413
Phone: 206-616-7184
Office hours: 2.30pm – 4.30pm on Tuesdays and Thursdays
Website: http://foster.uw.edu/faculty-research/directory/thomas-gilbert/

Teaching assistant: Michael Wittry
Email: mwittry@uw.edu
Office hours: 2.30pm – 4.30pm on Mondays and Wednesdays
Office hours location: PCAR Conference Room 446
Review sessions: Fridays at 8.30am in PCAR 390
**Grading:**

The components of the final grade are given below:

- **Quizzes**: \(7 \times 1.5\% = 10.5\%\)
- **Problem sets**: \(5 \times 2.5\% = 12.5\%\)
- **Group cases**: \(3 \times 4.5\% = 13.5\%\)
- **Individual capstone case**: 13.5%
- **Integrated case competition**: 10%
- **Midterm exam**: 20%
- **Final exam**: 20%

**Required textbook:**

“Corporate Finance: The Core” by Jonathan Berk and Peter DeMarzo, 4th edition, published by Pearson / Addison-Wesley (2016) with access to MyFinanceLab. See [http://www.berkdemarzo.com/cf-student/](http://www.berkdemarzo.com/cf-student/) for purchasing options. The book contains detailed explanations and additional examples, which will help you gain a better understanding of the concepts covered in class. The recommended readings are listed in the course outline. After each class, I will strongly recommend a number of problems from the textbook for you to apply the core concepts. For convenient access, these problems will be compiled as (fake) homework assignments on MyFinanceLab.

**Required case pack:**

The cases are available for purchase via Harvard Business Publishing online at: [https://hbsp.harvard.edu/import/572985](https://hbsp.harvard.edu/import/572985).

**MyFinanceLab:**

MyFinanceLab is an online learning tool that accompanies the textbook: [http://www.myfinancelab.com](http://www.myfinancelab.com). It is a place where you will take the weekly online quizzes, solve end-of-chapter problems, prepare for the exams by solving additional questions, etc. In addition, it provides study guides, hints and pointers on topics that you may be struggling with. In order to register, you will need a valid email address, the access code that comes with your MyFinanceLab Access Kit (purchased with the textbook), and the course ID: gilbert31953. If you did not purchase the Access Kit with the textbook, you may purchase access directly on the above website upon registration.

**Other requirements:**

- A financial calculator (HP-12C Platinum or Regular) – bring it to class every day. You will also need the calculator for quizzes, problem sets, cases, and exams. In class, I will be using the HP-12C and I recommend you purchase the Platinum version, which allows you to switch from reverse polish notation to (regular) algorithmic notation. You can use a different financial calculator but I will not answer your calculator-specific questions in class. Graphing calculators are not allowed.

- Access to a computer with Microsoft Excel (or comparable spreadsheet program) to complete the cases and homework 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.
(statistics + mathematics & microeconomics + finance + accounting). The Jump Start materials can be found on Canvas.

**Midterm:**
There is an in-class closed-book midterm. All students will take the exam at the same time – no exceptions. A formula sheet will be provided (no cheat sheets allowed). A financial calculator will be needed to solve some of the problems (no laptops or graphing calculators allowed).

**Final exam:**
There is a closed-book final exam. All students will take the exam at the same time – no exceptions. A formula sheet will be provided (no cheat sheets allowed). A financial calculator will be needed to solve some of the problems (no laptops or graphing calculators allowed).

**Quizzes:**
The quizzes will be online timed quizzes administered via MyFinanceLab almost every weekend. Each quiz will be 15 minutes long (about 5-7 questions on the week’s topics) and will be available from midnight on Thursday to midnight on Sunday. You may use any notes or books for the quizzes but you are required to answer them individually.

**Problem sets:**
To help you study the material covered in class, I will provide you with homework assignments. You are welcome to talk to other students about these assignments, but each student must turn in his or her own answers. The assignments do not need to be typed up and they should be turned in at the beginning of the class on the due date.

**Cases:**
In order to put the concepts learned in class into action, you will solve applied cases. For the group cases, you should work on these cases with your study team and you should be ready to discuss them in class. In addition, you are required to hand in a group report (no more than six pages including exhibits) that addresses the main case questions. For the individual case, you will be required to work alone and hand in your individual report.

The first page of the report must take the form of an executive summary addressed to the case’s main character. This should include your decision, your main assumptions, as well as the main steps of your analysis.

The second page of the report must be an Excel executive summary. This should include the most important tables that summarize your analysis. It must be created in Powerpoint by copy-pasting the Excel tables and must be emailed to me at least 10 minutes before class.

The accuracy, depth and conciseness of the reports, together with your in-class participation during the case discussion, will be taken into account when determining your grade for that part of the course.

**Case competition:**
The integrated case competition will take place on Monday 3 December (qualifying round) and Tuesday 4 December (final round). The case, case questions, and further details will be released closer to the date.
Review sessions: The TA will hold review sessions every Friday at 8.30am in PCAR 390. During these sessions, the TA will summarize the week’s most important learning objectives and will solve some of the recommended textbook problems and other relevant exercises. If you are struggling with the material, then you are strongly encouraged to attend all the sessions!

General finance lingo: For those of you with no background in finance, it is recommended that you become familiar with the corporate finance lingo by reading the first chapter of the textbook. I also suggest that you become familiar with the investments lingo by reading the first four chapters of “Investments” by Z. Bodie, A. Kane, and A. Marcus, 11th edition, McGraw-Hill, 2017. The book (and many previous editions) is available in the library.

Grade penalties: There will be a 25% penalty for any assignments that are turned in late without prior permission. In case of emergency that prevents you from taking an exam, you should contact me as soon as possible so that we can arrange for a retake. Any absence from the exams without supporting evidence will result in a grade of zero for the exam.

Re-grading policy: Mistakes can be made in grading. If you believe that there has been a significant mistake in the grading of your assignments or exams, you should contact me in writing within one week of the receipt of the grade. You should explain to me in detail where and why you think the grading was done incorrectly. I will re-grade your entire assignment or exam, so your grade may go up or down as a result.

Professionalism: Class attendance is required aside from circumstances related to (1) illness or (2) unavoidable conflict with a job or internship interview that cannot be rescheduled. If you are not able to attend a particular class session, please email me in advance to let me know the reason. Each student is expected to be on time to and prepared for each class meeting, fully engaged in class content throughout the class meeting, and respectful of your fellow students’ attempts to do the same. Please note that participation grades are based on the quality of your participation in class discussions, and not the quantity of your participation. While you are free to use technologies that are directly related to class, please otherwise refrain from use of computer, phone, PDA, and similar technologies during class that could distract your fellow students.

Form and substance: 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. This includes, but is not limited to, dating any material, numbering the pages, labeling graphs and tables, expressing yourself in a legible, concise, and grammatically correct manner.

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

Accommodations: To request academic accommodations due to disability, please contact Disabled Student Services, 448 Schmitz, 206-543-8924. If you have a letter from Disabled Student Services indicating that you have a disability that requires academic accommodations, please present the letter to me so that we can discuss the accommodations you might need in this class.

Feedback: It is important to me to know about any concerns or questions you might have. I also appreciate any comments on the course, in particular about lectures or assignments that you find particularly helpful or not. Please feel free to stop by my office or send me an email if you would like to talk to me.
Class Schedule

BONDS, STOCKS AND CAPITAL BUDGETING

Class 1: Monday 24 September

- **Topic:** Course introduction, financial decision making and review of the time value of money
- **Textbook:** Chapter 3 (3.1-3.3) and Jump Start material (chapters 4, 5.1, 5.2, 5.5, 6.1)

Class 2: Wednesday 26 September

- **Topic:** Bond pricing, YTM and the term structure of interest rates
- **Textbook:** Chapter 5 (5.3, 5.4) and Chapter 6

*TA Review Session 1: Friday 28 September, 8.30am, PCAR 390*

*Quiz 1: Via MyFinanceLab between Friday 28 September and Sunday 30 September*

Class 3: Monday 1 October

- **Topic:** Inflation, real versus nominal cash flows
- **Due:** “Foster Capital: Analyzing Prices, Yields, and Returns,” Foster School of Business Case
- **Textbook:** Chapter 5 (5.3)

Class 4: Wednesday 3 October

- **Topic:** Capital budgeting and free cash flows
- **Due:** Homework 1
- **Textbook:** Chapter 8

*TA Review Session 2: Friday 5 October, 8.30am, PCAR 390*

*Quiz 2: Via MyFinanceLab between Friday 5 October and Sunday 7 October*

Class 5: Monday 8 October

- **Topic:** IRR and alternative investment criteria
- **Due:** “Ocean Carriers,” Harvard Business School Case
- **Textbook:** Chapter 7 and Chapter 4 (4.9)
Class 6: Wednesday 10 October

- **Topic:** Arbitrage and stock valuation
- **Due:** Homework 2
- **Textbook:** Chapter 3 (3.4-3.5) and Chapter 9 (9.1-9.2)

**TA Review Session 3:** Friday 12 October, 8.30am, PCAR 390

**Quiz 3:** Via MyFinanceLab between Friday 12 October and Sunday 14 October

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**RISK, RETURN AND THE CAPM**

Class 7: Monday 15 October

- **Topic:** Historical risk and return, portfolio diversification
- **Textbook:** Chapter 10 (10.1-10.4) and Chapter 11 (11.1-11.2)

Class 8: Wednesday 17 October

- **Topic:** Optimal portfolio choice
- **Due:** Homework 3
- **Textbook:** Chapter 10 (10.5-10.6) and Chapter 11 (11.3-11.5)

**TA Review Session 4:** Friday 19 October, 8.30am, PCAR 390

**Quiz 4:** Via MyFinanceLab between Friday 19 October and Sunday 21 October

Class 9: Monday 22 October

- **Topic:** The Capital Asset Pricing Model (CAPM)
- **Textbook:** Chapter 10 (10.7-10.8), Chapter 11 (11.6-11.8) and Chapter 12 (12.1-12.3)

Class 10: Wednesday 24 October

- **Topic:** Market efficiency and trading strategies
- **Due:** Homework 4
- **Textbook:** Chapter 9 (9.5) and Chapter 13 (13.1-13.5)

**Midterm Review Session:** Friday 26 October, 10.30am, PCAR 390, will be recorded

Class 11: Monday 29 October

- **In-class closed-book midterm exam**
VALUATION AND CAPITAL STRUCTURE

Class 12: Monday 5 November

- **Topic:** Capital structure with and without taxes, WACC
- **Textbook:** Chapter 12 (12.4-12.7), Chapter 14 (14.1-14.3) and Chapter 15 (15.1-15.2)

Class 13: Wednesday 7 November

- **Topic:** APV, valuation with comparables and multiples
- **Textbook:** Chapter 9 (9.3-9.4), Chapter 18 (18.1-18.5) and Chapter 19 (19.1)

*TA Review Session 5:* Friday 9 November, 8.30am, PCAR 390

*Quiz 5:* Via MyFinanceLab between Friday 9 November and Sunday 11 November

Class 14: Wednesday 14 November

- **Topic:** Discounted cash flow (DCF) analysis, terminal value
- **Due:** “Midland Energy Resources, Inc.: Cost of Capital,” Harvard Business School Case
- **Textbook:** Chapter 19 (19.2-19.6)

Class 15: Friday 16 November

- **Topic:** Financial distress, agency costs, and optimal capital structure
- **Reading:** Friedman article on shareholder value maximization
- **Due:** Homework 5
- **Textbook:** Chapter 15 (15.3, 15.5) and Chapter 16 (16.1-16.7, 16.9)

*TA Review Session 6:* Saturday 17 November, time and place TBC

*Quiz 6:* Via MyFinanceLab between Friday 16 November and Sunday 18 November

Class 16: Tuesday 20 November

- **Topic:** Integrated financial decisions (capstone case analysis)
- **Due (individual):** “Flash Memory, Inc.,” Harvard Business School Case

DERIVATIVES

Class 17: Monday 26 November

- **Topic:** Financial options
- **Textbook:** Chapter 20 (20.1-20.3)
Class 18: Wednesday 28 November

- **Topic:** Replication and option prices
- **Reading only:** “The Keller Fund’s Option Investment Strategies,” Harvard Business School Case
- **Textbook:** Chapter 20 (20.4)

**TA Review Session 7:** Friday 30 November, 8.30am, PCAR 390

**Quiz 7:** Via MyFinanceLab between Friday 30 November and Sunday 2 December

Monday 3 December & Tuesday 4 December

- **Integrated case competition:** Details to follow

Class 19: Wednesday 5 December

- **Topic:** Course summary, finance electives and conclusion

**Final Review Session:** Friday 7 December, 8am, PCAR 390, will be recorded

Monday 10 December

- **Closed-book final exam**
- Time and location TBC