

**Michael G. Foster School of Business
University of Washington**

MBA Corporate Finance – BA 500 – Fall 2019

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, portfolio choice, market efficiency, cost of capital, capital structure, and payout policy.

Classroom: PCAR 390
Class time: Tuesdays and Thursdays, 8.45am – 10.15am (B) or 10.30am – 12pm (A)
Course website: Canvas

Instructor: Thomas Gilbert
Email: gilbertt@uw.edu
Office: PCAR 413
Phone: 206-616-7184
Office hours: 2pm – 4pm on Mondays and Wednesdays
Website: <http://foster.uw.edu/faculty-research/directory/thomas-gilbert/>

Teaching assistant: Lucas Rooney
Email: lrooney@uw.edu
Office hours: 2pm – 4pm on Tuesdays and Thursdays
Office hours location: PCAR Conference Room 446 (556 on 10/17 and 10/24)
Review sessions: Fridays at 8.30am in PCAR 390

Grading: The components of the final grade are given below:

Quizzes	7*1.5% = 10.5%
Homework	6*2% = 12%
Group cases	3*4.5% = 13.5%
Individual capstone case	14%
Integrated case competition	10%
Midterm exam	20%
Final exam	20%

Required textbook: “Corporate Finance” by Ross, Westerfield, Jaffe, and Jordan, 12th edition, published by McGraw-Hill (2019) **with** access to Connect, which is an online learning tool that accompanies the textbook. The book contains detailed explanations and additional examples, which will help you gain a better understanding of the concepts covered in class. For each class, the recommended readings are listed in the course outline, and a set of end-of-chapter problems will be compiled into Connect. You are not expected to read the material before class. Purchasing from the University Bookstore includes the loose leaf book, access to Connect, the e-book, the ReadAnywhere app, and all other digital content linked to the book.

You access Connect via the MH Campus tab in Canvas. To register the first time via Canvas, use the access code that you purchased with the book at the University Bookstore and make sure to use your UW email. You will use this platform to 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.

Required case pack: The cases are available for purchase via Harvard Business Publishing online at: <https://hbsp.harvard.edu/import/663907>.

Required calculator: A financial calculator – bring it to class every day. You will also need the calculator for quizzes, problem sets, cases, and exams. I will be using the HP-12C Platinum. You can use a different financial calculator but I will not answer your calculator-specific questions in class. Graphing calculators or phone-based apps are not allowed in the exams.

Required computer: 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 a 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, phone apps, 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, phone apps, or graphing calculators allowed).
- Quizzes:** The quizzes will be online timed quizzes administered via Connect 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.
- Homework:** To help you study the material covered in class, I will provide you with weekly homework assignments. You are welcome to talk to other students about these assignments, but each student must turn in his or her own answers online.
- 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 9 December (qualifying round) and Tuesday 10 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 (many editions are 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 is graded 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:** UW policies on religious and disability accommodations, academic integrity, student conduct, and student safety will be strictly followed. Policy details can

be found online including at the following links:

<http://depts.washington.edu/uwdrs/>;

<https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy/>;

<http://depts.washington.edu/uwdrs/faculty/syllabus-statement/>;

<https://www.washington.edu/studentconduct/conduct-code-and-policy/>.

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: Tuesday 24 September

- **Topic:** Course introduction, financial decision making, and review of the time value of money
- **Textbook:** Chapter 1 and Jump Start material

Class 2: Thursday 26 September

- **Topic:** NPV, firm value framework, IRR and alternative investment criteria
- **Due:** Homework 1
- **Textbook:** Chapter 5

TA Review Session 1: Friday 27 September

Quiz 1: Friday 27 September to Sunday 29 September

Class 3: Tuesday 1 October

- **Topic:** Bond pricing, YTM and the term structure of interest rates
- **Due:** Homework 2
- **Textbook:** Chapter 8

Class 4: Thursday 3 October

- **Topic:** Expected returns and cost of debt
- **Due:** "Foster Capital: Analyzing Prices, Yields, and Returns," Foster School of Business Case

TA Review Session 2: Friday 4 October

Quiz 2: Friday 4 October to Sunday 6 October

Class 5: Tuesday 8 October

- **Topic:** Free cash flows
- **Textbook:** Chapter 6 (using chapter 2)

Class 6: Thursday 10 October

- **Topic:** Stock valuation, dividends, comparables and multiples

- **Due:** Homework 3
- **Textbook:** Chapter 9

TA Review Session 3: Friday 11 October

Quiz 3: Friday 11 October and Sunday 13 October

Class 7: Tuesday 15 October

- **Topic:** Capital budgeting and cash conversion cycle
- **Due:** “Ocean Carriers,” Harvard Business School Case

RISK, RETURN AND THE CAPM

Class 8: Thursday 17 October

- **Topic:** Historical risk and return, portfolio diversification
- **Textbook:** Chapter 10

TA Review Session 4: Friday 18 October

Quiz 4: Friday 18 October to Sunday 20 October

Class 9: Tuesday 22 October

- **Topic:** Optimal portfolio choice, shorting
- **Textbook:** Chapter 11

Class 10: Thursday 24 October

- **Topic:** Optimal portfolio choice, leverage
- **Due:** Homework 4
- **Textbook:** Chapter 11

TA Review Session 5: Friday 25 October

Quiz 5: Friday 25 October to Sunday 27 October

Class 11: Tuesday 29 October

- **Topic:** The Capital Asset Pricing Model (CAPM)
- **Textbook:** Chapters 11 and 13

Class 12: Thursday 31 October

- **Topic:** Arbitrage, market efficiency and trading strategies
- **Due:** Homework 5
- **Textbook:** Chapter 14

Midterm Review Session: *Date, time and place TBC*

Friday 1 November

- **Midterm exam**

VALUATION AND CAPITAL STRUCTURE

Class 13: Tuesday 5 November

- **Topic:** Capital structure with and without taxes, WACC
- **Textbook:** Chapters 13 and 16

Class 14: Thursday 7 November

- **Topic:** APV, terminal value
- **Textbook:** Chapter 18

TA Review Session 6: *Friday 8 November*

Quiz 6: *Friday 8 November to Sunday 10 November*

Class 15: Wednesday 13 November

- **Topic:** Discounted cash flow (DCF) analysis
- **Due:** “Midland Energy Resources, Inc.: Cost of Capital,” Harvard Business School Case

Class 16: Friday 15 November

- **Topic:** Financial distress, agency costs, optimal capital structure, and shareholder value maximization
- **Required readings:** Friedman, The Economist, and others
- **Due:** Homework 6
- **Textbook:** Chapter 17

TA Review Session 7: *Saturday 16 November*

Quiz 7: *Friday 15 November to Sunday 17 November*

Class 17: Tuesday 19 November

- **Topic:** Payout policy
- **Due (individual):** “Flash Memory, Inc.,” Harvard Business School Case (questions available on Tuesday 12 November)
- **Textbook:** Chapter 19

Class 18: Thursday 21 November

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

Final Review Session: *Friday 22 November*

Tuesday 26 November

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

Monday 2 December to Tuesday 10 December

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