

Michael G. Foster School of Business
FINANCE 502: BUSINESS FINANCE
Winter 2020

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Office Hours: 4:30-5:30 Mon & Wed
Office Location: PCAR 573

Class Time: 6:00-7:40pm or 7:50-9:30pm Mon & Wed
Classroom: PCAR 391

Teaching Assistant: George Nurisso
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Review Session: Sunday, 1:30-2:30pm
Classroom: PCAR 390

Course Objectives

The objective of this course is to provide students with an understanding of the basic concepts of finance and financial management. You should gain an appreciation of the role of financial markets and institutions in our economy as well as an introduction to the responsibilities, concerns, and methods of analysis employed by corporate financial managers.

Covered Topics

This course is primarily devoted to the principles of financial valuation. We will apply the principles of valuation to value (a) financial securities (bonds and stocks) and (b) real projects (capital budgeting) under certainty. Since financial decision-making virtually always involves risk & uncertainty, we will then introduce the concept of risk, and the relation between risk & return. We will integrate our knowledge of cash flows with our understanding of risk to modify capital budgeting techniques in the presence of risk & uncertainty. The course concludes with an introductory treatment of capital structure, financing alternatives, and derivatives.

Required Material

1. My slides, available on Canvas. You are responsible to obtain a copy before each lecture.
2. Course Pack: The course pack contains the cases we will cover. It can be purchased from Harvard Publishing at: <https://hbsp.harvard.edu/import/684031>

Textbook

“Corporate Finance: The Core” by Jonathan Berk and Peter DeMarzo, 4th edition.

Financial Calculator

We will be using a financial calculator in class. You are free to use a calculator of your choice as long as it has functions for net present value (NPV), internal rate of return (IRR) and bond valuation. I will use the TI BA II Plus calculator in class. Please bring your calculators every week as we will work through numerical examples in class.

Grading Policy

Midterm exam	30%
Final exam	30%
Homework assignments	16%
Cases	24%

Homework

I will assign weekly homework assignments through Canvas. Your homework assignments should be submitted electronically through Canvas by midnight of their due dates.

Course Operation

The course meets on Mondays and Wednesdays. To get the most out of the lectures, read the slides before class. I make my slides available so that during class you will have time to listen and fill in notes around the outlined material. **The slides are not a substitute for coming to class.** There will be material that you will be responsible for that is not covered in the slides.

Exams

The midterm and a final exam each constitute 30% of your final grade. Please make a note of these exam dates and plan to be in class for these exams. Make up exams will be given only under very unusual and unavoidable circumstances.

1. **The midterm exam will be held in class on Monday, February 10th.**
2. **The final exam will be held on Monday, March 16th.**

The exams will be closed book and closed notes; however, **you can bring your own double-sided formula sheet with all of the necessary financial formulae.** Financial calculators will also be allowed during the exams.

Cases

There will be three group case assignments. You should work on these assignments with your study team. We will discuss cases in class, so make sure that you keep a copy of your notes or write-up to refer to during the discussion. The case write-ups are due electronically by midnight on the day before we discuss them in class.

Grade 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.

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.

Re-grades

The TA and I will work hard to ensure that the same partial credit is allocated to the same partially correct answer on each exam. Occasionally, we will make mistakes in our grading, and we are eager to correct mistakes subject to the following limits. If you believe that there was a mistake in the grading of your exam, ***within one calendar week*** following the return of the exam, submit the original exam and a separate *written explanation* of the points of contention to me. If the re-grade request is made after one calendar week or without an accompanying written explanation, no re-grade will be given. *There are no exceptions to the preceding rule.* **YOUR ENTIRE EXAM WILL BE REGRADED.** This means that in the unlikely event that we find more scoring errors that were in your favor than against you, your regrade score could actually be lower. All re-grade decisions are final.

Office Hours

I have scheduled office hours so that you can be sure that I will be in my office if you make the effort to come see me. My formal office hours are on Mondays and Wednesdays from 4:30 pm to 5:30 pm. If you need to see me outside office hours, e-mail, call, or see me for an appointment (give me alternative times that would be convenient for you). **I cannot emphasize this more, but if you are facing difficulties in learning, please let me know early.** I am committed to working with you and to provide resources to help you succeed in this course.

Review Sessions

The TA will hold weekly review sessions. They will be held on Sunday from 1:30-2:30pm in PCAR 390. The goal of these sessions is to review the material and selected homework assignments, and go through additional practice problems.

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.).

Religious Accommodation

Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to request an accommodation, is available at [Faculty Syllabus Guidelines and Resources](https://registrar.washington.edu/students/religious-accommodations-request/). Accommodations must be requested within the first two weeks of this course using the Religious Accommodations Request form available at: <https://registrar.washington.edu/students/religious-accommodations-request/>

Helpful Hints

Finance is easier to learn if you keep-up with the material weekly. You will not be able to understand the advanced concepts without investing time in learning the fundamentals. Perhaps more so than other subjects, finance is difficult to learn by cramming. If you do not do any work for the first three weeks of the course, it is very likely that you will be hopelessly lost for the remainder of the course.

- Experience suggests that the best way to learn finance is by doing it. Most of the problems will look easy once you have seen the solution. Solutions are provided so you can get timely feedback on your own problem-solving attempts. You will probably find that the hardest part of finance is figuring out how to tackle the question (which tools to apply); once the approach is set-up, the follow through is easier. The only way to learn how to approach a problem you haven't seen before is through experience—the more practice you do, the more patterns you will see and the more confident in your intuition you will be.
- If you are uncertain about any of the material covered during the week, speak-up during class or see me during office hours.
- I highly recommend subscribing to the *Wall Street Journal*. It may not have the greatest sports section, but it is the authority on what's going on in the business world. If you get into the habit of reading the WSJ regularly (which most finance professionals do), then you will be much more knowledgeable about current business affairs.
- Part of the battle in learning finance is learning the lingo. Finance is full of specialized terms. You may be interested in books such as *The WSJ Guide to Understanding Money and Investing* if you want a primer in finance and investing lingo. Such an introduction to concepts will be valuable to you not only in a career in finance, but also in a lifetime of investing and personal financial planning.

Course Schedule

Session	Day/Date	Topics	Text Book Chapter	Notes
1	Monday, 1/6	Introduction	Chapter 3	
2	Wednesday, 1/8	Interest Rates & Inflation	Chapter 5	
3	Monday, 1/13	Valuation of Bonds	Chapter 6	Stock picks & HW1 due
4	Wednesday, 1/15	Bonds and Default Spreads	Chapter 6	
	Monday, 1/20	NO CLASS (MLK Day)		HW2 due
5	Wednesday, 1/22	Capital Budgeting: Decision Rules	Chapter 7	
6	Friday, 1/24	Capital Budgeting: Cash Flows	Chapter 7	
7	Monday, 1/27	Capital Budgeting Continued	Chapter 8	HW3 due
8	Wednesday, 1/29	Valuation of Stocks	Chapter 9	
9	Monday, 2/3	CASE: Ocean Carriers	Chapter 9	HW4 & Ocean Carriers Case due
10	Wednesday, 2/5	Midterm Review		
11	Monday, 2/10	MIDTERM EXAM		
12	Wednesday, 2/12	Risk and Return	Chapter 10	
	Monday, 2/17	NO CLASS (Presidents Day)		HW5 due
13	Wednesday, 2/19	Portfolios and Diversification	Chapters 10 & 11	
14	Monday, 2/24	Equity Risk Premium	Chapter 11	HW6 due
15	Wednesday, 2/26	Cost of Capital	Chapter 12	
16	Monday, 3/2	Cost of Capital & Capital Structure	Chapter 14	HW7 due
17	Wednesday, 3/4	Capital Structure		
18	Monday, 3/9	CASE: Flash Memory, Inc.		HW8 & Flash Memory Case
19	Wednesday, 3/11	Summary and Review		Stock Market Case due
Exam	Monday, 3/16	FINAL EXAM		