Accelerated Corporate Finance
FINC440
Summer 2019

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SYLLABUS

COURSE DESCRIPTION

Accelerated Corporate Finance is an intensive one-quarter course that provides an introduction to the major concepts and techniques necessary to run a firm. The firm can range from a large international conglomerate to a three-person entrepreneurial firm. The course material is valuable if you plan to enter a career in corporate finance, or in consulting, or if your objective is to run your own or someone else’s (the shareholders’) firm.

Firms make three fundamental financial decisions. First, firms must decide how to invest their capital (valuation/capital budgeting decision). Investment projects can range from purchasing a piece of equipment to an acquisition of another firm. Next, firms must decide how to finance their investments (capital structure decision). How much debt should the firm carry and how does debt affect the value of a firm or a project. Finally, firms must decide what to do with the profits (the payout decision). Do they reinvest the profits or do they distribute it to investors. This course will cover the theory and applications of the three corporate finance decisions that you will face in your career. A tentative list of topics is provided at the end of this syllabus.

TEXTBOOK AND SUPPLEMENTARY MATERIALS

• **Recommended Text:** Jonathan Berk and Peter DeMarzo, *Corporate Finance*, Prentice Hall, **Fifth Edition**. The textbook readings and problems are highly recommended. See textbook acquisition instructions posted on the Canvas website for details on how to acquire access to MyFinanceLab and a loose-leaf version of the text at significantly reduced prices.

• **Case Packet:** Many of the graded assignments for this course will be based on case studies that must be purchased through study.net.

• **Canvas:** All the material relevant to the course such as presentations, solutions to homework problems, sample exams, and any other miscellaneous material will be posted on the course Canvas page. You are responsible for printing copies of these materials if you need them for class. All of your assignments for the course will also be submitted online through the course Canvas page.
I recommend that you read the presentation before class. Please note that the presentations include slides that will not be discussed in class.

- **Excel Tutorials:** You will use Excel extensively on your case assignments, HW assignments, as well as possibly on the midterm and final. I do not teach Excel in this class, so you are responsible for learning it outside of the classroom if you are not familiar with it. If you need assistance with Excel, I recommend taking the online tutorial offered at Lynda.com titled “Excel 2010: Financial Functions in Depth.” You should be able to access this tutorial for free through the NU site license. If there is a demand for an excel tutorial I'll arrange it.

**GRADING POLICY**

Your total score for the course will be a weighted average of your performance. The midterm exam is optional. If you don’t take it then the points of the midterm exam will be added to the final exam. Also, if you perform better on your final than on your midterm, then the grade of the midterm will not be taken into account. Your grade in the course will be based on the maximum of the following two options:

<table>
<thead>
<tr>
<th></th>
<th>Option A</th>
<th>Option B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Assignments</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

However, your grade may be reduced by up to 15 points if you fail to submit some or all of the HW assignments at the due date.

Your final course grade will be curved and depend on your relative performance in the class. Final grades will be given in accordance with Finance Department policy.

**HW Assignments, Cases and exams:**

There will be weekly homework assignments and/or case assignments. The homework assignments and the case assignments will be posted in the course site following each class. Due dates for the case assignments will be announced. All students face the same set of deadlines and no late assignments will be accepted. Any assignments submitted after the deadline will receive no credit. Turning in assignments after the due date or taking an exam later than the scheduled time may provide a student with an unfair advantage over other students.

**Group Case Assignments:**

The case assignments are group assignments. Students will be allocated to groups by us. There will be at most four students per group. Please do not change groups during the quarter.
You must upload your case answers via the link to the case assignment on Canvas. Do not submit more than one set of answers per group. Unless otherwise specified, you should upload your case report as a word document.

In general, I will not answer any questions about a case before it is turned in. If you are unclear about something, make an assumption, state this assumption clearly in your answer, and move forward with your solution. As long as your assumption is reasonable, then your approach will be acceptable. Discussions of the cases will take place during class, but no “solutions” will be provided. For each case, one member of each group must upload files to Canvas an hour before the beginning of the class in which they are due. Remember, these are real world cases, so not always there is one correct answer (though there are many wrong answers). We will often spend some time discussing these cases in detail in class. All students should come prepared to discuss these cases on the day the assignments are due. I recommend that you bring a printed copy of the case answers with you to class.

Exams:

The midterm will be held during the sixth class (July 24th, 2019 – the second joint make-up class). The midterm will cover the first half of the course. The final exam will be held during the exam week and will cover the entire course. If your score on the final exceeds your score on your mid-term, the mid-term will not be taken into account and the weight of the final will be equal to 75% of the final grade.
Class Participation:
You are expected to be prepared for class and to constructively participate in class discussion especially during a discussion of a case. No later than Tuesday, August 20th, 2019, all students must complete a participation self-assessment where you will be asked to evaluate your class participation according to the guidelines listed below. Students who do not complete the participation self-assessment on time will receive no credit for the class participation component of their own grade. To qualify for a participation grade you must satisfy or exceed **ALL** of the listed characteristics for the given grade.

<table>
<thead>
<tr>
<th>Participation Grade</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>A</td>
<td>Regularly volunteered comments or asked questions that <em>other students found valuable</em>. In response to being called upon, always demonstrated preparedness. Always used name-card.</td>
</tr>
<tr>
<td>B</td>
<td>Often volunteered comments or asked questions that <em>other students found valuable</em>. In response to being called upon, generally demonstrated preparedness. Always used name-card.</td>
</tr>
<tr>
<td>B-</td>
<td>Infrequently volunteered comments or asked questions that <em>other students found valuable</em>. In response to being called upon, sometimes demonstrated lack of preparedness.</td>
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<tr>
<td>C</td>
<td>Never volunteered comments or asked questions that other students found valuable. In response to being called upon, demonstrated lack of preparedness.</td>
</tr>
<tr>
<td>F</td>
<td>In response to being called upon, demonstrated lack of preparedness. Occasionally disruptive to the learning environment of others.</td>
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Calculation of final course grade

The top 40% of students will receive an “A”, the next 50% will receive a “B”, and the bottom 10% will receive a “C” or lower. The finance department requires this grade distribution across all beginning finance classes.

Additional rules regarding assignment submissions

- *Late submissions will receive no credit*. Deadlines for this class are non-negotiable. If you have a question about a deadline, you should resolve your question sufficiently prior to the deadline so that you can complete the assignment by the due date.
- *All students within a study group will receive identical scores on group case submissions*. Responsibility for submitting the desired answers by the deadline is the joint responsibility of the entire group, regardless of how the group determines the allocation of the work.
Regrade Requests:

If you feel that your assignments or exams have been graded incorrectly, you may submit an official regrade request. I adhere to the Kellogg regrade policy. All requests must be made in writing within 10 working days after the exam or assignment has been graded and returned. They should consist of a short explanation of why you think the grading is incorrect. Upon submission of a regrade request, I will review your entire assignment/exam.

Academic Integrity and Honor Code:

The first sentence of the Kellogg Honor Code reads: “All students enrolled in a course offered by the Kellogg School of Management agree to abide by the Kellogg Honor Code”. If you are unsure of what this means, please read the honor code. You can find it at: https://www.kellogg.northwestern.edu/policies/honor-code.aspx.

If you are in doubt about whether something is acceptable under the honor code, please do not hesitate to ask me.

In particular, the following are considered honor code violations:
1. Consulting materials distributed in any other section of this course or any other Kellogg finance course.
2. Discussing cases with any individuals – including former students – other than those students in your current case group.
3. Sharing course materials with anyone at any time. See below.
4. In future quarters, discussing any course assignment with students then enrolled in this course before those students’ due date.
5. Seeking or receiving any assistance with problem sets, quizzes, the midterm, or the final exam.

Access to course information via the web

Lecture slides, assignments, and course readings will be available on the course Canvas page. Grades will be entered into the electronic gradebook.

CLASSROOM ETIQUETTE AND MISCELLANEOUS OTHER POLICIES

As you know, Kellogg has established a series of guidelines to make sure that the classroom environment enhances the learning experience for all students. Please take the time to familiarize yourself with the revised Classroom Etiquette code.

https://www.kellogg.northwestern.edu/policies/etiquette.aspx

Laptops: It is generally very distracting to other students and hinders class discussion when laptops are open during class. Therefore, please keep your laptops closed during class unless we are reviewing a case or working with an Excel file as part of the lecture.
**Phones**: Please turn off your phones while in the classroom. Also, please refrain from checking your e-mail or text messaging during class. You may not use electronic devices for non-class purposes (i.e. email, web-surfing) during class.

**Seating**: During the second-class session, please choose the seat you plan to sit in for the rest of the quarter. I will appreciate if you continue to sit in that seat each week.

**Name Plates**: Please bring your name plate to class and have it displayed throughout the quarter. This will help me to learn your names.

**Class Material**: The class notes, HW assignments, answers, and sample exams are the intellectual property of the instructor. You may not distribute class notes electronically or in any form to anyone outside of the class or outside of Kellogg. You may not duplicate these notes for use by your employers after graduating from Kellogg without my written consent.

**Office Hours and Availability**

**Office Hours**: In my experience, fixed office hours do not work for most students. I am, however, always available by appointment. Please email me to set up a time to meet. When requesting a meeting please try to do so at least 24 hours in advance and give me some guidance as to when you are available. Udi will hold office hours on a weekly basis [exact time and place will be published later].

**Email Policy**: I will always try to respond to your e-mails within 48 hours. Please take this into account and plan accordingly. Always cc the TA when writing to me unless it is a personal issue.

**Student Liaison**

The liaison will:
- Be a sounding board for me on student related issues;
- Communicate to me any scheduling conflicts regarding assignments, classes, or exams;
- Organize lunches for interested students and me.

Please contact me if you are interested in serving as the class liaison. You should always feel free to reach out to me with issues regarding class. Should you wish an anonymous route, you should feel free to reach out to the student liaison.

**Other**

All course materials are the intellectual property of the instructor. You may not distribute class materials electronically or in any form to anyone – inside or outside of Kellogg. In particular, you may not share course materials with other students or with your employers after graduating from Kellogg.
**Tentative Course Outline**

Listed below are the topics and readings for each topic. "BD" refers to the textbook by Berk and DeMarzo. Please read the corresponding material in the textbook prior to the discussion of the topic.

<table>
<thead>
<tr>
<th>Module</th>
<th>Topics</th>
<th>Chapters readings (BD)</th>
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<tbody>
<tr>
<td>1.</td>
<td>Course Introduction&lt;br&gt;<strong>Valuation (1) – Valuation of Projects and Companies:</strong>&lt;br&gt;• Forecasting the free cash flow&lt;br&gt;• Estimating the terminal value&lt;br&gt;• Free cash flow valuation</td>
<td>8, 19.1-19.3, 19.5 (section on discounted cash flows only), 19.6</td>
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<td>2.</td>
<td><strong>Valuation (2) – Valuation of Bonds:</strong>&lt;br&gt;• Valuation of bonds&lt;br&gt;• Yield to maturity&lt;br&gt;• Duration</td>
<td>6, 30.4 (pages 1050-1052)</td>
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<td>3.</td>
<td><strong>Valuation (3) – Valuations of Stocks:</strong>&lt;br&gt;• The dividend discount model&lt;br&gt;• Valuation based on multiples</td>
<td>9</td>
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<td>4.</td>
<td><strong>Risk and return (1) – Portfolio theory:</strong>&lt;br&gt;• Definition of risk&lt;br&gt;• Understanding Diversification&lt;br&gt;• Portfolio optimization&lt;br&gt;• The Capital Market Line (CML)</td>
<td>10.1-10.6, 11.1-11.6</td>
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<td>5.</td>
<td><strong>Risk and return (2) – The Capital Asset Pricing Model (CAPM):</strong>&lt;br&gt;• The risk return tradeoff&lt;br&gt;• The security market line (SML)</td>
<td>10.7-10.8, 11.7-11.8, 13.7-13.8</td>
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<td>6.</td>
<td><strong>Valuation (4) – Valuation with the CAPM:</strong>&lt;br&gt;• Estimating the cost of capital&lt;br&gt;• Capital structure and the weighted average cost of capital (WACC)&lt;br&gt;• Levering and un-levering beta</td>
<td>12</td>
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<td>7.</td>
<td><strong>Capital Structure (1):</strong>&lt;br&gt;• Capital structure in a perfect world</td>
<td>14</td>
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<td>8.</td>
<td><strong>Capital Structure (2):</strong>&lt;br&gt;• Debt and Taxes&lt;br&gt;• Cost of financial distress</td>
<td>15</td>
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<td>9.</td>
<td><strong>Capital structure (3):</strong>&lt;br&gt;• Other factors affecting the capital structure decision&lt;br&gt;• Practical issues in the estimation of the cost of capital</td>
<td>16</td>
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<td>10.</td>
<td><strong>Valuation (5) – Valuation with leverage:</strong>&lt;br&gt;• Weighted average cost of capital method&lt;br&gt;• The Adjusted present value method&lt;br&gt;• Cash flow to equity method</td>
<td>18</td>
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| 11. | **Payout policy:**  
  - Cash payout policies  
  - Dividends  
  - Repurchase | 17 |
| 12. | **Valuation (6) – Valuation of Financial Options:**  
  - Valuation of Financial options | 20, 21.2 |
| 13. | **Additional Topics, if time allows.** |   |