Course Description:
This course presents basic principles of corporate finance and develops tools for financial decisions and valuation in the presence of uncertainty, imperfect information, and conflicting incentives among stakeholders. A series of spreadsheet-based valuation exercises are used to develop firm values using basic financial data for companies.

Prerequisites:
ECON 5000, ECON 5105, FINC 5000, and ACCT 5030;
Quantitative skills at the level of intermediate algebra;
Regular access to an email account and the course website.

Required and recommended reading:
2. Additional readings: There are several articles that you will need to read and be able to discuss in class. The articles are available on the course website. Additional reading materials may be distributed in class.
3. The Wall Street Journal is an excellent resource to see the concepts covered in the course in action. I encourage you to read it regularly.

Calculator/MS Excel software:
It is essential that you have a financial calculator to use throughout the course. Bring your calculator to each class. Many textbook problems require complex arithmetic operations, and a financial calculator is necessary to solve these problems efficiently. This is especially true for exams.
As another alternative, you can use the MS Excel software on a computer. If you choose this option, during the exam you are allowed to use only one blank Excel worksheet on your own notebook. Internet access should be turned off and any other program or software should stay closed during the entire duration of the exam. Finally, you must provide the Excel formulas you use in your exam to show the details of your work.

The use of calculators on other electronic devices (such as, cell phones) will not be permitted on tests.

**Course website:**
The course website plays a critical role in this course. It includes, among other things, the most recent version of the course calendar, assignments and your up-to-date grades visible only to you. Check the announcement page often—important notices and updates from the course will appear there. You can access the course website through Canvas at:

https://seattleu.instructure.com/

**Attendance and class participation:**
You will find that regular attendance and class participation are essential for your success in this course. I will not keep official attendance records. However, I expect you to be fully aware of the issues discussed in class. Note that the coverage during lectures will not be limited to the textbook. I would also like you to meet with me during my office hours at least once during the quarter. This will help me to get to know you better, address your concerns and to discuss your progress.

**News Minute:**
News Minutes will be brought to you by your classmates. News Minute highlights recent financial news. It can also consist of discussing a finance-related study or book. The topic of your News Minute must be related to the material covered in class that day or in prior class periods. Your presentation should not exceed 2 minutes. If you need to use the classroom computer to project any files or websites, see me before the class to set it up. You will be assigned a specific date on which you are expected to present your News Minute. If you fail to make your presentation as scheduled, a score of zero will be assigned for that portion of your grade.

**Homework assignments:**
Assignments due each class period are listed on the course website. Bring all assigned problems on a loose sheet of paper ready to be handed in at the *beginning* of the class period. Each time, I will grade all/part/none of the problems. For the problems that are not graded, you will receive full credit for your effort to completely solve it. If you cannot make it to a particular class session, but would like to receive full credit for collected assignments that class, you are expected to email me *all* assigned problems for that class *before* the beginning of the class. Late assignments are not accepted. A missed assignment will be graded as zero. I will drop the lowest one grade out of all the homework assignments.

**Project:**
The project’s details will be made available on the course website. You will work on the project in teams of three. Working in teams promotes learning from each other and develops teamwork skills.
The due date for the project is listed in the course calendar. The project is due at the beginning of the class period. If you cannot make it to that class session, but want to receive full credit for the collected project, you are expected to email or fax it to me with a time stamp before the beginning of the class. The grade on the project turned in after the beginning of class on the due date will be reduced at a rate of 10% per day. A missed project will be assigned a score of zero.

**Two Exams:**

There will be two exams given on the days listed in the course calendar. The second exam will take place during the final exam week. It will include the material not tested on the first exam. If you know that you will not be able to attend one of the exams, you must request permission to be absent from the exam in advance of it. Your request must be supported by written documentation of the conflicting situation that prevents you from taking the exam. For example, health conflicts are to be documented by the written statements of a health professional; job conflicts are to be documented by a letter on company stationery from a supervisor; military reserve conflicts are to be documented by a copy of orders to duty on the conflicting date; conflicts because of attendance of funerals or weddings of first degree relatives are to be documented by copies of obituaries or wedding invitations, respectively. The grant of the permission or excuse is at my discretion. If the absence from the exam is not excused, a score of zero will be assigned for the missed exam.

**Grade weights:**

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>News minute</td>
<td>3%</td>
</tr>
<tr>
<td>Homework assignments</td>
<td>17%</td>
</tr>
<tr>
<td>Project</td>
<td>20%</td>
</tr>
<tr>
<td>Mid-term exam</td>
<td>30%</td>
</tr>
<tr>
<td>Final exam</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The course letter grade will be assigned according to the following schedule:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>95 – 100</td>
</tr>
<tr>
<td>A-</td>
<td>90 – 94.99</td>
</tr>
<tr>
<td>B+</td>
<td>87 – 89.99</td>
</tr>
<tr>
<td>B</td>
<td>84 – 86.99</td>
</tr>
<tr>
<td>B-</td>
<td>80 – 83.99</td>
</tr>
<tr>
<td>C+</td>
<td>77 – 79.99</td>
</tr>
<tr>
<td>C</td>
<td>74 – 76.99</td>
</tr>
<tr>
<td>C-</td>
<td>67 – 73.99</td>
</tr>
<tr>
<td>D</td>
<td>60 – 66.99</td>
</tr>
<tr>
<td>F</td>
<td>below 59.99</td>
</tr>
</tbody>
</table>

**Academic honesty and integrity:**

Seattle University is committed to the principle that academic honesty and integrity are important values in the educational process. Academic dishonesty in any form (e.g., copying during exams, using stored formulas in programmable calculators, using formula sheets or other notes that are not permitted during exams, engaging in unauthorized collaborating on and/or copying course assignments) is a serious offense against the academic community. Acts of academic dishonesty will be addressed according to the Seattle University Academic Integrity Policy. The policy can be found at the following address: [https://www.seattleu.edu/registrar/academics/performance/](https://www.seattleu.edu/registrar/academics/performance/)

You can familiarize yourself with the principles and expectations of academic integrity by taking an Academic Integrity Tutorial, which can be found at [https://www.seattleu.edu/academicintegrity/](https://www.seattleu.edu/academicintegrity/)

If you are not sure whether a particular action is acceptable according to the Academic Honesty Policy, you should check with your instructor before engaging in it.
Other academic policies on the Registrar website:
You can access other university academic policies, such as Academic Grading Grievance Policy, on the Registrar’s website: https://www.seattleu.edu/registrar/academics/performance/

General responsibilities:
You are responsible for knowledge of any administrative announcements (test information, schedule changes, etc.) that are made at any time during scheduled class periods regardless of whether you are in attendance. If you are absent, ask a classmate to keep you informed. I will also assume that you are aware of all updates posted by me on the Angel announcement page.

I expect you to be considerate and respectful in class to your fellow students. This includes turning off cell phones and refraining from side conversations. Finally, make every effort to avoid late arrivals and early departures to minimize distractions.

Academic resources:
Library and Learning Commons offer the following free services:
- Research services,
- Learning assistance,
- Writing Center,
- Media Production Center.

For more information or to schedule an appointment, visit http://www.seattleu.edu/learningcommons/

Support for students with disabilities:
If you have, or think you may have, a disability (including an “invisible disability” such as a learning disability, a chronic health problem, or a mental health condition) that interferes with your performance as a student in this class, you are encouraged to arrange support services and/or accommodations through Disabilities Services staff located in Loyola 100, (206) 296-5740. Disability-based adjustments to course expectations can be arranged only through this process.
### Daily Class Calendar - as of 01/05/15

NOTE: This calendar provides a planned outline of the course topics and events. Deviations may be necessary. If so, they will be announced in class and on the website. It is your responsibility to be informed of these changes.

Bring the assignment(s) with you ready to be collected at the beginning of class on the date specified. If you cannot make it to that class session, but want to receive full credit for the collected assignment, you are expected to email or fax it to me with a time stamp before the beginning of the class. When faxing any document, make sure to indicate my name and “Dept. of Finance” on the cover page.

<table>
<thead>
<tr>
<th>DATE</th>
<th>EVENT</th>
<th>TOPIC</th>
<th>ITEMS DUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jan-5</td>
<td>Introduction; Review of FINC 5000; Risk and return</td>
<td>Read Ch 10, 11 (skip 11.3-11.5, 11.7)</td>
<td></td>
</tr>
<tr>
<td>2 Jan-12</td>
<td>Cost of capital</td>
<td>Homework 1</td>
<td>Read Ch 13; Readings 1, 2</td>
</tr>
<tr>
<td>-- Jan-19</td>
<td>MLK Day -- No class</td>
<td></td>
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</tr>
<tr>
<td>3 Jan-26</td>
<td>Capital structure</td>
<td>Homework 2</td>
<td>Read Ch 15, 16; Reading 3</td>
</tr>
<tr>
<td>4 Feb-2</td>
<td>Capital structure</td>
<td>Homework 3</td>
<td>Read Ch 17; Readings 4, 5</td>
</tr>
<tr>
<td>5 Feb-9</td>
<td>TAKE-HOME MIDTERM EXAM</td>
<td>Chapters 10, 11, 13, 15-17</td>
<td>Homework 4 (will not be collected)</td>
</tr>
<tr>
<td>-- Feb-16</td>
<td>Presidents’ Day -- No class</td>
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<td></td>
<td>Feb 20 is last day to withdraw</td>
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<tr>
<td>6 Feb-23</td>
<td>Equity financing: Dividend Policy; IPO</td>
<td>Read Ch 19, 20; Readings 6, 7</td>
<td></td>
</tr>
<tr>
<td>7 Mar-2</td>
<td>Debt financing: Warrants and convertibles; Financial distress</td>
<td>Homework 5</td>
<td>Read Ch 24, 30; Reading 8</td>
</tr>
<tr>
<td>8 Mar-9</td>
<td>online class</td>
<td>Mergers and acquisitions</td>
<td>Homework 6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Read Ch 29; Reading 9</td>
</tr>
<tr>
<td>9 Mar-16</td>
<td>Project due</td>
<td>Corporate governance; Executive compensation</td>
<td>Homework 7 (will not be collected)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reading 10, 11, 12</td>
</tr>
<tr>
<td>-- Mar-20</td>
<td>FINAL EXAM 6:00-7:50pm</td>
<td>Chapters 19, 20, 24, 29, 30</td>
<td></td>
</tr>
</tbody>
</table>
HOMEWORK ASSIGNMENTS

CQ stands for Concept Questions section, QP stands for Questions and Problems section, and the first digit in a problem number indicates the chapter in Corporate Finance, 10th Edition (by Ross, Westerfield, and Jaffe) where the problem is located.

**Homework 1**

CHAPTER 10: CQ 10.6, 10.9  
QP 10.1, 10.2, 10.9, 10.12, 10.20  
CHAPTER 11: CQ 11.8, 11.9, 11.10  
QP 11.12, 11.13, 11.18

**Homework 2**

CHAPTER 13: CQ 13.1, 13.2, 13.8  
QP 13.5, 13.6, 13.11, 13.16, 13.19, 13.20  

**Additional problem:**  
Calculate the beta of a privately-held Company A using the pure-play method. Use the following information for Company A and Company C, which is a comparable company with similar business risk.

**Company A:**  
Debt-Equity ratio = 0.7  
Marginal tax rate = 35%

**Company C (comparable company):**  
Debt-Equity = 1  
Marginal tax rate = 35%  
Beta = 1.1

**Homework 3**

CHAPTER 15: CQ 15.8, 15.11, 15.12, 15.13  
QP 15.1, 15.4  
CHAPTER 16: CQ 16.1, 16.3, 16.4, 16.5, 16.7  
QP 16.12, 16.13 (Question (e.): What happened to the firm’s cost of equity and WACC after its leverage increased? Is this consistent with the graph in Figure 16.6?), 16.14, 16.15

**Homework 4**

CHAPTER 17: CQ 17.3, 17.4, 17.5, 17.6
Homework 5

CHAPTER 19: CQ 19.4, 19.20
QP 19.3a, 19.4a, b, 19.5 (Note that the amounts in the table are market values.), 19.6

CHAPTER 20: CQ 20.10a, 20.12
QP 20.1a, b, c, 20.7 (The flotation costs as a percentage of the amount raised is the total (direct+indirect) costs divided by the net amount raised.)

Homework 6

CHAPTER 24: CQ 24.1, 24.5, 24.6, 24.10
QP 24.4, 24.5, 24.6, 24.8

CHAPTER 30: CQ 30.2, 30.5, 30.8
QP 30.4 (Based on the firm's Z-score assess its credit risk. Make sure to use the Z-score for private companies and non-manufacturers.)

Homework 7

CHAPTER 29: CQ 29.3, 29.8, 29.10
QP 29.1, 29.7, 29.10
REQUIRED READINGS

Cost of Capital
1. “Revisiting the Capital Asset Pricing Model” by Burton
3. “‘Best Practices’ in Estimating the Cost of Capital: An Update” by Brotherson, Eades, Harris, and Higgins

Capital Structure
4. “Capital Structure” by Stewart C. Myers
5. “The Capital Structure Puzzle: The Evidence Revisited” by Barclay and Smith

Equity Financing
6. “A Review of IPO Activity, Pricing, and Allocations” by Ritter and Welch
7. “Reappearing Dividends” by Julio and Ikenberry

Debt Financing
8. “Capital Structure and Corporate Strategy: An Overview” by La Rocca and La Rocca

Mergers and Acquisitions
9. “Creating Value with Mergers and Acquisitions” by Hazelkorn, Zenner, and Shivdasani

Corporate Governance and Executive Compensation
12. “How to Fix Executive Compensation” by Edmans