

**Corporate Investment Decisions**  
**Finance 5115**  
Department of Finance  
Albers School of Business and Economics  
Seattle University

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Course Description: This course is focused on the critical examination of the best practices associated with evaluating corporate investment opportunities (Capital Budgeting). Our examination will begin with of the key performance indicators (NPV, IRR, Payback, ROI, etc.), common errors in cash flow estimation, the appropriate methods for adjusting for risk, the application of Monte Carlo analysis to assess risk, the effect of capital constraints, the effect of debt financing, acquisition analysis, and investing overseas. The hottest topic in the capital budgeting area is real option analysis (ROA). ROA applies stock option pricing models to value the flexibility associated with corporate investment opportunities as an extension to NPV analysis. We will spend the last week of the course discussing this topic. Besides learning the tools and models applied in the area of capital budgeting, this course is designed to improve your financial analysis skills. We will focus on how to create and present professional quality financial analysis. You will be required to present your analysis in a written report, in Excel, and in a small group setting.

Course Objectives:

Provide you with a strong understanding of how capital budgeting is practiced in today's business world.

Provide you with the information and skills to search and find various financial information on the web.

To improve on your abilities to present your analysis clearly orally, in writing, and in exhibits (spreadsheets).

To continue the process of learning how to adopt general financial models presented in class to suit a unique specific application.

To help you advance your long-term professional career.

Course Requirements: You are expected to actively participate in the learning process, you are also expected to hand in a short write-up accompanying your quantitative analysis for the first four cases and participate in a small group meeting presentation for the fifth case, and you are required to take an in-class comprehensive final exam.

*Course Participation:* Course participation refers to your contribution to the learning process and can occur in class and through communications with me outside of class (email, office visits, etc.). The more we participate, the more we will learn. Therefore, you are expected to participate in the learning process by reading the provided material, by actively participating in class discussions, and **discussing the course material with me outside of class**. The level and quality of your participation would make up 15% of your grade and the grading criterion is presented on page 6 of this syllabus.

*Assigned Cases:* There will be five assigned cases during the quarter. The first four cases require a short write-up (typically 2 or 3 typed pages) accompanied by your quantitative analysis (Excel spreadsheets). For the first four cases, you are required to hand in a hard copy of your case analysis (write up and quantitative analysis) at the beginning of class and to submit via email your Excel spreadsheets. For the fifth case, you are required to present your analysis in a small group meeting setting being exposed to direct questioning by the participants (myself, one other SU finance faculty, a member of the department's advisory board, and two other classmates). Note: You will be required to use @Risk software on the last three cases. The software is easily accessible in three different ways: a one-year subscription to the @Risk software can be acquired at a student discount for \$50 ([www.palisade.com/academic/students.asp](http://www.palisade.com/academic/students.asp)), Albers' computer labs, or via VMware (desktop.seattleu.edu). In total the five case assignments will make up 50% of your grade and the grading criterion for both the write up and the quantitative analysis is presented on pages 7 & 8 of this syllabus.

*Final Exam:* There will be a comprehensive, in-class final exam on Wednesday, June 12<sup>th</sup>. The final exam will focus on the conceptual issues and will make up 35% of your grade. Past final exams will be available via Canvas.

Course Grading: 15% is based on the class participation,  
50% is based on the five cases (first three cases: 20 points each, cases four and five: 40 points each), and  
35% is based on the final exam.

#### Required Readings:

The various articles listed on pages 4, & 5 of the syllabus (see Course Schedule and Assignments). These articles are available via Canvas.

#### Optional Readings:

**Titman and Martin, Valuation: The Art & Science of Corporate Investment Decisions, Ed. Pearson, Addison Wesley** (early editions of this book are available at significantly lower prices with little difference in content).

### **Academic Honesty**

Seattle University is committed to the principle that academic honesty and integrity are important values in the educational process. Academic dishonesty in any form is a serious offense against the academic community. Acts of academic dishonesty will be addressed according to the Seattle University Academic Honesty Policy. The policy can be found at the address:

[http://www.seattleu.edu/regis/Policies/Policy\\_2004-01.htm](http://www.seattleu.edu/regis/Policies/Policy_2004-01.htm)

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.

## COURSE SCHEDULE & ASSIGNMENTS

<u>Date</u>	<u>Topic</u>
4/3	<b>I. Basics of Capital Budgeting</b>  Readings: <b>“How Do CFOs Make Capital Budgeting and Capital Structure Decisions?” (pages 8-13)</b> <b>“Internal Rate of Return: A Cautionary Tale”</b> Titman and Martin – Chapters 1 and 2  Case 1: Due 4/17
4/10	<b>II. Estimating the Appropriate Required Return</b>  Readings: <b>“Best Practices in Estimating the Cost of Capital: Update”</b> <b>“Single vs. Multiple Discount Rates”</b> <b>“How High a Hurdle Rate?”</b> Titman and Martin – Chapters 4 and 5
4/17	<b>III. Risk Assessment Tools</b>  Readings: <b>“What’s Wrong with Modern Capital Budgeting?”</b> <b>“Risk Management and Monte Carlo Simulation”</b> Titman and Martin – Chapter 3  Case 2: Due 4/24
4/24	<b>IV. Debt Financing &amp; NPV</b>  Readings: <b>“Using APV: A Better Tool for Valuing Operations”</b> <b>“How Much Cash Does Your Company Need?”</b> Titman and Martin – Chapter 7  Case 3: Due 5/1

- 5/1 **V. Merger & Acquisition Analysis**
- Readings: **“Creating Value with Mergers and Acquisitions”**  
**“Company Valuation in Mergers and Acquisitions: How  
is Discounted Cash Flow Applied By Leading  
Practitioners?”**  
**“RJR Nabisco: A Case Study of a Complex  
Leveraged Buyout”**  
Titman and Martin – pages 350-352
- Case 4: Due 5/15
- 5/8 Open Class
- 5/15 **Ethics Week and VI. Special Problems in Capital Budgeting**
- Readings: **“Capital-Rationing Decisions of Fortune 500  
Firms: a Survey”**
- Case 5: Due 6/6 & 6/7  
(all students must sign up for an hour time slot)
- 5/22 **VII. Evaluating International Investments**
- Readings: **“Incorporating Country Risk in the Valuation of  
Offshore Projects”**  
**“Accounting for Sovereign Risk When Investing in  
Emerging Markets”**  
**“Emerging Markets Aren’t as Risky as You Think”**
- 5/29 **VIII. Introduction to Real Option Analysis**
- Readings: **“Exploiting Uncertainty”**  
**“Real Options: State of the Practice”**  
Titman and Martin – sections 11.1 to 11.4
- 6/5 Course Wrap-Up
- 6/6 & 6/7 Case 5 Presentations
- 6/12 **Final Exam: 6 - 7:50 pm**

<u>Important Due Dates:</u>	<b>April 17<sup>th</sup></b>	Case 1
	<b>April 24<sup>th</sup></b>	Case 2
	<b>May 1<sup>st</sup></b>	Case 3 (applying @Risk Software)
	<b>May 15<sup>th</sup></b>	Case 4 (applying @Risk Software)
	<b>June 6<sup>th</sup> &amp; 7<sup>th</sup></b>	Case 5 (applying @Risk Software)
	<b>June 12<sup>th</sup></b>	Final Exam

### **Grading Criteria for Course Participation**

90% or more	Involved in all class discussions Occasionally provided relevant outside reading material with interesting insights Often talked with professor outside of class regarding course material
80% or more	Involved in most class discussions Once provided relevant outside reading material with some comments Occasionally talked with professor outside of class regarding course material
70% or more	Occasionally or rarely involved in class discussions Read some relevant outside reading material Once talked with professor outside of class regarding course material

## Grading Criteria for Assigned Cases

Each case will be graded based on the write up and the presentation of the quantitative analysis. The following criteria will be used for grading the write-up and the presentation of the quantitative analysis:

### Write-Up

90% or more	Easy to Read and is targeted to the appropriate audience Almost all sentences are well structured All paragraphs are well structured Purpose of the analysis is clearly stated in the introduction Methods used and key assumptions are stated clearly All relevant results are reported clearly with a discussion of the relevant implication A concluding paragraph that clearly summarizes the implication(s) of the analysis
80% to 89%	Mostly easy to read with some rough spots and an attempt was made to target the report to the appropriate audience Most sentences are well structured Most paragraphs are well structured Some reference to the purpose of write-up is stated in the beginning Some reference to methods and key assumptions used Most relevant results are reported in a reasonable fashion with a discussion of the implication A concluding paragraph that mentions some of the implication(s) of the analysis
70% to 79%	Hard to read Many sentences are poorly structured Many paragraphs are poorly structured No reference to the purpose of write-up is stated in the beginning Brief to no mention of methods and key assumptions used Majority of relevant results are not reported or are not reported clearly and no implication discussed No concluding paragraph exists or one that does not mention the implication(s) of the analysis

## Presentation of Quantitative Analysis

90% or more	Exhibits have informative titles that suggest the contents of the exhibit An assumption box was used containing all of the necessary assumptions It is easy for the reader to understand the structure of the exhibits All equations and sources are provided All relevant results are clearly presented The relevant financial tools or techniques are applied correctly and completely
80% to 89%	Exhibits have titles An assumption box was used containing some of the necessary assumptions It is not easy for the reader to understand the structure of the exhibits Most equations and sources are provided Most relevant results are presented in a reasonable fashion The relevant financial tools or techniques are mostly applied correctly
70% to 79%	Exhibits do not have titles No assumption box used It is difficult for the reader to understand the structure of the exhibits Few or no equations and sources are provided Some relevant results are not reported or results are reported in an unclear manner There was a good attempt to apply the relevant tools or techniques correctly