

# Finance 5439: Capital Structure in Corporations

Graduate School of Business Administration

University of Florida

Professor Mark J. Flannery

Fall 2017

Nearly all information about this course is contained in the course web page, which can be reached through the [University's Canvas](#) site:

[?????](#)

[??????](#) requires you to log in using your GatorLink username and password. If you are new to Sakai, the site [????????](#) provides information and FAQs

## Course Goals

This course continues and expands the material presented FIN 5437. We will cover:

- \* the connection between asset pricing and capital budgeting
- \* capital structure (leverage) and dividend policies
- \* bankruptcy and corporate bond pricing

FIN 5439 primarily presents a set of *concepts* for evaluating business decisions in a coherent fashion. Taken together, Fin5437 and FIN5439 present a core set of financial concepts and institutional facts, which should be known by all MBA students. In addition, these two courses provide background for students planning to take elective courses in finance, insurance, and real estate.

## Assurance of Learning

Each program at the Warrington College of Business Administration has developed goals and objectives that express the most valued skills and knowledge that students should be able to demonstrate upon completion of the total learning experiences in that program.

The MBA program goals and objectives that apply to this course are:

Learning Goal 5: Program graduates will be competent across business disciplines.

5A. Students will apply the essential elements of core business principles to analyze and solve problems in the business environment.

5B. Students will apply essential elements of core business principles to construct and implement decision making processes in the business environment.

## Laptop Restriction:

## Instructor Contact Information:

The best way to get a quick answer or assessment is to catch me immediately before or after class, or during the break. If that doesn't work for you, please try to attend my regular office hours:

Office hours (tentative): 3:00 – 5:00 Tuesday, Thursday  
315C STZ  
Telephone: 392-3184  
Email: mark.flannery@warrington.ufl.edu

If you cannot make it to my regular office hours, we can arrange a specific appointment. My telephone has voicemail, and I read my email daily (even if I'm not in my office). Please do not call me at home – not even the night before the exam. (Thanks.)

**Cancelled Class:** I need to be out of the country on Tuesday, November 21 (Thanksgiving week). No makeup class is planned.

**Grading:** (TENTATIVE, 8/14/17)

Group Problem Sets (3):	12%
Group case write-ups (2):	22%
Quizzes in class (2 @ 12% each):	24% (your worse quiz is dropped)
Group assessment and class participation:	6%
Final exam:	36%

A short (7-week) module provides little opportunity to recover should you fall far behind. Keep current. If you encounter difficulties, take steps to resolve the problem ASAP(!).

**Forming Teams (Groups).** As in FIN5437, students should form groups of three for the Problem Sets and Case write-ups. Groups will remain together for the entire module. All team members receive the same score for each submission. I will record your group composition by reading the members' names on the first homework assignment.

**Class participation.** FIN 5439 involves considerable reading and lecture material. I want to spend as much class time as possible solving problems that illustrate the general points of analysis. Whenever possible, I will post the problems in advance on the class website. Learning finance is not a spectator sport. Please come to class on time, prepared to discuss (or ask questions about) the day's material.

**Required readings:**

1. Brigham and Ehrhardt, *Financial Management, Theory and Practice*, 15<sup>th</sup> Edition, 2015. (This is the same text you have been using in Prof. Banko's FIN 5437.)

The two prior editions of this book are very similar to the latest edition, and probably quite a bit cheaper. However, the page numbers do not correspond to those listed here. If you decide to use a previous edition, you will need to identify the relevant pages in your own textbook.

2. My “Topic Notes.” A course packet at the Target Copy Center includes just the Topic Notes. Target is at 1412 NW University Avenue (376-3826) and at 3422 SW Archer Road (372-1171). You should probably call the store before you go over, to confirm that they have copies available for sale.

Alternatively, you may download and print the Topic Notes (as seven pdf files; about 200 pages) from the course web site, under “*Topic Notes.*” Class slides are in the same place.

**Quizzes:** There will be three TWO? in-class quizzes with multiple choice answers. Be sure you have a calculator with you for all quizzes. The quiz will be the *last* activity in class on the scheduled day. Your lowest quiz score will be dropped when computing your final class grade.

*Recent years’ quizzes and answers are posted under “Past Quizzes and Exams” under “Resources” at the course website in Sakai.*

**Problem Sets:** Each group should submit a single set of answers to each problem set. These answers will not be closely graded for content, but points will be deducted if the solutions are incomplete or carelessly done. No credit is given for late submissions. Solutions will be posted to the class Web page shortly after the submission deadline. Be sure you understand any differences between the posted solutions and your group’s responses.

Some of the same problems were assigned last year, and written solutions were provided. You do yourselves no favor by simply replicating those solutions. The goal is to learn how to do the problems, not to practice your penmanship!

**Cases:** We will devote approximately one-half of a class session to discussing each of the (two) assigned cases. The class web site contains all the required case materials, including a set of questions around which you should organize your case analysis and discussion. Each team should prepare a case write-up, which is due at the start of class. All(!) members of the team should come to class prepared to discuss *all* aspects of the case. Even if your teammate “did” the financial calculations, YOU are responsible for being able to discuss them.

*Problem sets AND questions for the cases are posted under “Problem Set Assignments” under “Resources” at the course website.*

**Problem Sets and Case Write-ups** should be neatly typed. Case write-ups should take the form of a memo to your boss, or to the “head” person referenced in the case. For problem sets, you may hand-write the sections involving substantial numerical calculation, provided it is neat and professional-looking.

Submit cases and problem sets as a **hard copy** to me in class or to my mailbox in BUS 321.

In the event of an emergency, you may send an electronic copy -- in Word or Excel ONLY -- via email. But:

1. Be sure to paginate any Excel files, so I can print them *without editing*.
2. Name the file something that ties it to you. E.g. "Group\_1\_Case2.doc" is more likely to get you credit for the work than one of several files named "Homework.doc".
3. Don't use this form of submission except in an emergency.

For the *cases* ONLY, email me an electronic copy (e.g. a Word file) of the report *in addition to* submitting a printed copy in class.

**Re-grading Policy:** Believe it or not, professors sometimes make mistakes in grading an assignment. (Of course, this happens very rarely...) If you disagree with the way an assignment or examination has been graded, or you have remaining questions, write a short explanation (justification) of your concern. If you present me with the assignment or exam and your explanation during the seven calendar days following the day I return the material in class, I will re-read the *entire* submission, taking your comments into consideration. No re-grading will be considered outside this 7-day window.

**End-of-Chapter Problems:** The text includes numerous end-of-chapter questions and problems. Answers to the "Self-Test Problems" and to the "Problems" are provided in the book's Appendices A and B respectively. The Instructor Manual provides answers to end-of-chapter "Questions" and I've posted the relevant chapters' answers on the course Web page under "*Instructor's Manual Answers to end-of-chapter questions*" under "*Resources*" at the course web site.

For each assigned chapter, I *strongly* encourage you to work at least some of the analytical problems. Ideally, you will be comfortable with them all by the end of the course.

**Past Exam and Quiz Questions:** The Web page contains a set of past exams, along with sample answers. You may find it helpful (or comforting) to look at these questions as part of your studying.

*Old quizzes, exams and sample answers are provided under "Past Quizzes and Exams" under "Resources" at the course website.*

**Exam/Quiz "crib sheet":** Each student may use a one-page "crib sheet" during the quizzes and the exam. The content of this sheet may – should! – change as the course proceeds.

"One page" means one (single) side of one 8 ½ x 11 inch page.

There is no restriction of the size of the type or writing you employ on that page.

Students may cooperate in preparing crib sheets, but each student must have his/her own copy during the exam.

You may bring in a copy of someone else's crib sheet, but it probably won't do you much good. (The big value lies primarily in preparing the sheet.)

Bring your own **working calculator** to the exam. Calculators may not be shared.

**Final Exam**: Sometime the week of December 11, 2017

No postponements or make-ups!

**EXCEL????**

*The most recent available final exam questions and sample answers are posted under **"Past Quizzes and Exams"** under **"Resources"** at the course web site.*

## Reading List

The relative importance of readings within each topic is indicated by their order in the list of required readings.

### 1) The CAPM and Capital Budgeting (2 sessions)

- Topic Note 1
- Brigham-Ehrhardt Chapter 9 (covered in FIN 5437)
- Review: Brigham-Ehrhardt Chapter 6, pages 231-246

**More Capital budgeting expansion and review of applications. (0.5 – 1 session)**

**Problem Set # 1: Due on ?????, 5:00 pm.**

### 2) The Cost of Capital and Firm Value (2.5 sessions)

- Topic Note 2
- Brigham-Ehrhardt Chapter 11 (covered in FIN 5437)
- Review: Brigham-Ehrhardt Chapter 3 material on net cash flow, taxes.
- Review: Brigham-Ehrhardt Chapter 7, pp. 287-294 (covered in FIN 5437)

### 3. Option Concepts in Corporate Finance (2 sessions)

- Topic Note 3 (new)
- Review: Brigham-Ehrhardt Chapter 8, pp. 306-328
- Review BE chapter 9 (assigned in “choose a firm’s capital structure” sessions, which I have at least for now moved to below) :
- Brigham-Ehrhardt Chapter 26, pp. 1015-1019

- Many option value calculators are available on the Web. One is:
  - <http://www.intrepid.com/robertl/option-pricer1.html?q=~robertl/option-pricer1.html>

### 4) Choosing a Firm’s Capital Structure (Two sessions)

- Topic Note 3
- Brigham-Ehrhardt Chapter 13, pp. 530-540
- Brigham-Ehrhardt Chapter 15, but omit MM Web Extension

- Brigham-Ehrhardt Chapter 26, pp. 1015-1019 (which may be confusing for now) and pp. 1019-1021 (which won't be)
- Review: Brigham-Ehrhardt Chapter 9, pp. 357-367
- Chapter 20, section 20-1: “Preferred Stock“ (pp. 820-24)

**5) Dividend Policy (0.5 session; or maybe merge into “choosing capital structure”)**

- Topic Note 7
- Brigham-Ehrhardt Chapter 14

**Review some important institutional features of capital markets by reading some or all of:**

- Brigham-Ehrhardt Chapter 19, pp. 759-765, 770-777
- Brigham-Ehrhardt Chapter 20  
(These two chapters are meant to buttress your institutional knowledge. If you can follow the lectures and the cases, you are probably OK in this dimension.)

**6) Securities issuance: public and private ... shelf registration (0.5 Session)**

Some of textbook: BE pp 753-4, 762-4, section 18-5,  
BUT private (unregistered) stock and bonds (especially bonds?) at least as large.  
144A (need more info)  
Form D w.p.  
Crowdfunding wp and the Santa Monica guy's crowdfunding portal site  
See notes I have started on this topic: “Info on new topic: secs issuance”

**7) Bond pricing: Treasuries (1 session)**

- Pure expectations theory of interest rates (Brigham-Ehrhardt Chapter 5, web extension 5D 1)
- Duration (Brigham-Ehrhardt Chapter 5, web extension 5C)
  - Zeros
  - Coupon-paying bonds

**8) Pricing Corporate Bonds (1.5 session)**

- Bankruptcy (0.5 session)  
Brigham-Ehrhardt Chapter 24
- risk premia bankruptcy costs.
- HY and IG
- covenants

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<sup>1</sup> These web extensions can be downloaded from the Cengage Brain.com “student Downloads” site.  
[http://www.cengage.com/cgi-wadsworth/course\\_products\\_wp.pl?fid=M20b&product\\_isbn\\_issn=9781305632295&token=224E87F40CB E5AE30E12DB9886897974A24630A5F0EFD98F964C6B762DA96167579B27890743EF565D6CF2E600 5C042581A258EE087AFCE761C03F926A6036E3AB396DC3FAF5935B](http://www.cengage.com/cgi-wadsworth/course_products_wp.pl?fid=M20b&product_isbn_issn=9781305632295&token=224E87F40CB E5AE30E12DB9886897974A24630A5F0EFD98F964C6B762DA96167579B27890743EF565D6CF2E600 5C042581A258EE087AFCE761C03F926A6036E3AB396DC3FAF5935B)

- e. liquidity premia
- f. Seniority
- g. Callability      Bond call options: BE 775-81, “Refunding Operations” discusses calling and replacing debt
- h. Bonds with related considerations:
  - i. Sovereigns
  - ii. Emerging market corporates

***Final Exam: Sometime the week of December 11, 2017***

***No postponements or make-ups!***

Preliminary Syllabus; do not rely on this



**Summary Schedule, Finance 5439 (Fall 2017)**

**This schedule may be changed slightly as we go along.  
All changes will be announced in class.**

1	Tu, 10/24	Topic 1
2	Th, 10/26	Topic 1, Start Topic 2
3	Tu, 10/31	Topic 2
4	Th, 11/2	Topic 2
5	Tu, 11/7	Topic 3
6	Th, 11/9	Topic 3
7	Tu, 11/14	Topic 4 (half of class)
8	Th, 11/16	Topic 4
9	Tu, 11/21	No Class (Flannery travel) - Happy Thanksgiving
10	Tu, 11/28	Topic 4
11	Th, 11/30	Topics 5 and 6
12	Tu, 12/5	Topic 7, start 8
13	Th, 12/7	Topic 8
		Review Session and extra office hours will be scheduled.
		Final Exam: , December ???