

Capital Structure and Risk Management (Fin 5439) Spring 2018 – Module 3

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Office Hours: T, TH 9:15-10:45AM and by appointment

Course Materials:

Given the sky high costs of “recent edition” books and the expensive market for used books (and even rented books, I have am using

Financial Management, Brigham & Erhardt 14th edition, 2014, Publisher: Cengage Learning. Most of you used this book in Fin 5437 with John Banko, so you should have it still.

The third edition will also do fine (as Dr. Banko mentioned in his course)

Lectures notes are handed out in class and are available on the class website in Canvas in the files section in the folder labeled Lecture Notes. I encourage class attendance, but it is not required. That said, exam questions are closely related to what is discussed in class.

There will also be **Canvas Postings in a file folder labeled Additional notes. The book covers most material adequately, but there are some points that are not discussed in the book or that need clarification.** The write-ups will be labeled by the topic they relate to. They will be added as the course progresses.

Practice Problems: The book has a lot of problems at the end of various chapters and sketched out solutions are given in the book. I will suggest problems worth doing at the end of each week and also give a few additional problems to work on that I will provide an answer key for. This should aid you in staying current in the course.

Course Goals: The course continues and expands on the material presented in FIN 5437. We will cover:

1. The connection between asset pricing and capital budgeting
2. Capital structure (leverage) and dividend policies
3. Options and firm risk management

Fin 5439 primarily presents a set of *concepts and tools* 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 provided background for students planning to take elective courses in finance and real estate.

Grading:

1. 3 Assignments (Group) applying class concepts: 15% for each assignment
2. Midterm 20% (**Tuesday, February 6 – in class**)
3. Final Exam: 35% (**Tuesday, February 27 at your usual class time & location**)
4. Class participation is a “tie-breaker”

Course grades and GPA: A = 4.0, A- = 3.7, B+ = 3.3, B = 3 , B- = 2.7. C+ = 2.3. C = 2.0, C- = 1.7, D+ = 1.3. D = 1.0, D- = 0.7 and E = 0.

Grading Curve: Exam degree of difficulty can vary, sometimes for unforeseen reasons. Hence, final grades are curved with a GPA generally in line with other introductory MBA courses,

Assignment grading policy: Assignments are to be done in groups of 3. You can form your own groups. You should give me your group pairings by the end of the first week. **There will be 3 assignments. You will get the assignment questions a week before the case on Canvas in assignments tab. The assignments will be problems and perhaps a mini-case or two.**

All assignments should be submitted via Canvas in neatly presented, well formatted form (Word document). For written questions, quality answers should also have quality grammar and quality logic – bosses like that. If you wish to add excel spreadsheets to show more calculations – fine. The word document should show steps to an answer for partial credit. The due dates will be

Monday January 29th

Monday February 12

Wednesday February 21

Late assignments are not accepted. I will also adjust group assignment grades based on peer evaluations! The evaluations are filled out at the end of the final exam.

Regrading policy: If you request a regrade, I will regrade the whole assignment since errors can be made in both directions.

Class Participation: For those that attend regularly and make insightful comments, if they are on the border areas between two grades, they will get a bump up.

Make-up exam: No make-up exam will be given for the final or midterm if a student fails to show up for the exam except in case of documented illness or family tragedy. Requests for early exams are discouraged unless there are truly extraordinary reasons (job interviews). I need to be notified a few days in advance and give approval for missing an exam with alternative arrangements.

Students with Disabilities

Students requesting testing accommodations must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the instructor when requesting accommodations.

Below is specific topic coverage (timing is approximated)

Topic 1: CAPM review, capital budgeting, firm and security systematic risk (first week)

- BE review chapter 6
- BE review briefly chapter 9
- Topic 1 note in Canvas under Additional notes

Topic 2: Leverage, Cost of Capital, Firm Valuation, and Tax benefits of debt (second week and third week)

- BE Chapter 7: 304-311
- BE Chapter 2: 65-82
- BE Chapter 15: 589-599, 609-614
- BE Chapter 21: 829-844
- Topic 2 notes (some material relating to tax reform)

Topic 3: Choosing an Optimal Capital Structure (Third and Fourth week)

- BE Chapter 15
- BE Chapter 21
- Topic 3 notes

Topic 4: Dividend policy (Fourth week)

- BE Chapter 14
- Topic 4 notes

Topic 5: Option Pricing and Option concepts in Corporate Finance (week 5 and 6)

- BE Chapter 8
- BE Chapter 11: Ch 463-467 (flex topic*)
- BE Chapter 26 (flex topic*)
- BE Chapter 21: 844-848
- Topic 5 notes in Canvas

Topic 6: Risk Management and Hedging (week 6 and week 7)

- BE Chapter 23
- Topic 6 notes in Canvas

***flex topic: Only cover if adequate time. Real options if covered could also be moved to last week.**