

Finance 6429
Financial Decision Making
Spring 2018

Course Objective: This course examines corporate financing and risk management decisions. Specifically, we will examine how the mix of financial contracts a firm uses to raise funds and to manage risk affect firm value. The first three sessions provide a review of why financial choice matters, the basic efficient market paradigm and the basic principals of capital budgeting and valuation. The second part of this course takes a detailed look at the financing choices firms face and examines the factors influencing the cost of each source of funding. Topics in this part of the course include the costs and benefits of debt financing, the type of debt to use, (private or public, short or long term, lease versus secured), the appropriate payout or dividend policy and how to make payouts. In addressing these issues we will examine how financing affects investment policy and managerial incentives. The third part of the course deals with risk management. In this part of the course we will examine how and when risk management adds value and the appropriate use of derivative contracts to manage risk.

The course is intended to introduce students to the analytical and conceptual tools used by financial managers in making capital budgeting and financing decisions. The class format will be a combination of lecture and cases. Each topic area has one or more cases associated with it. The cases are designed to illustrate practical applications of the concepts presented in class.

Text: There is no required text. If you are new to the topics listed below you might find it helpful to buy or rent a copy of one of the standard graduate level corporate texts such as Brealey, Myer and Allen Corporate Finance or Berk and DeMarzo Corporate Finance. It really doesn't matter what edition you buy since principals of corporate finance do not change much over time. In addition, there is a packet of readings and cases. It is absolutely essential that you read the cases and assigned readings before each class. I will expect that you have read this material and will question you in class about the cases and readings.

Class Notes: My lecture outlines will be available on line one week before each session. You should read over the notes before class.

Videos: A series of short videos covering some of the course material will be on the class website. These videos cover some of the more technical material in the class. I work through some problems and cases in class based on the assumption that you have reviewed these videos.

Course Evaluation: Your grade will be based on class participation, two short quizzes, two written case assignments and a final exam. In addition, there are two homework assignments that will be discussed in class. For the cases, you should work in groups of 4 or 5 students. Each group is responsible for writing up two cases and will lead the discussion in class. Groups should submit their preferences for cases to discuss by January 10th from cases designated in **bold type** on the Syllabus. I will assign cases based on preferences and coverage needs.

The course grade will be determined as follows:

Quizzes and class participation	25%
Final	50%
Case Assignments	25%

Office 303-H Stuzin Hall
 Phone: 392-3486
 christopher.james@warrington.ufl.edu

Office Hours: Monday and Wednesday 11:00 am to 11:45am and by appointment
Please feel free to email me with any questions. All emails will be answered within 24 hours.

Topic List

Topic 1: Does Financing Add Value? (1/8)

Case: Humana, Inc. Managing in a Changing Industry (1/10)

Topic 2: Transparency and Firm Value (1/8-1/10)

Readings: Initial Public Offerings: Ivey Publishing

Review video posted for Topic 2

Topic 3: Basics of Valuation: Incorporating Financing Benefits into a Valuation Model. (1/17)

Case: **Air Thread Connections. (1/22)**

Review video posted for Topic 3

Topic 4: Part A: The Determinants of Capital Structure (1/22)

Readings: Is Debt Overhang Causing Firms to Underinvest?

Case: **Diageo (1/24)**

Class discussion homework questions (1/24)

Review video posted for Topic 4

Part B: Capital Structure at Start-ups (1/29)

Case: **Redhook Ale (1/31)**

Topic 5: Financial Distress (1/31)

Reading: The Resolution and Costs of Financial Distress

Review video posted for Topic 5

Case: **Cumberland Worldwide Corporation (A) (2/7)**

Topic 6: Leasing (2/7)

Case: **Burlington Northern 2/12**

Homework assignment discussion: 2/12

Topic 7: Liquidity Management (2/12)

Case: Jones Electrical Distribution (2/12)

Topic 8: Payout Policy: (2/14)

Cases: **Dividend Policy at Linear Technology (2/19)**

Topic 9: Risk Management: To Hedge or Not to Hedge? (2/19)

Readings: Froot and Scharfstein: A Framework for Risk Management