

Northwestern University
Kellogg School of Management

FINC 441
Corporate Finance

Professor David Matsa
Winter 2014

SYLLABUS

Course Readings:

Berk and Demarzo, Corporate Finance, 3rd Edition, Prentice Hall (BD)

Articles available through linked syllabus on course website:

<http://www.kellogg.northwestern.edu/faculty/matsa/441/home/syllabus.pdf>

Cases (included in course packet):

“Teuer Furniture (A)” (Kellogg 5-313-509-A)

“Arundel Partners: The Sequel Project” (HBS 9-292-140)

“Dividend Policy at FPL Group, Inc. (A)” (HBS 9-295-059)

“UST Inc” (CaseNet)

“Safeway, Inc.’s Leveraged Buyout (A)” (HBS 9-294-139)

“Liability Management at General Motors” (HBS 9-293-123)

The course is organized into four major modules:

- I. Capital Budgeting (Lectures 1-5)
- II. Dividend Policy (Lecture 6)
- III. Capital Structure (Lecture 7-11)
- IV. Applied Topics (Lecture 12-13)

I. Capital Budgeting

1. Introduction

- Course objectives and goals
- Role of financial manager
- Market efficiency

BD: Chapter 1.2 (pages 7-14) and Chapter 9.5 (pages 294-300)

2. Cost of Capital: Review

BD: Chapter 10 and Chapter 12

3. Cash Flow Forecasting

BD: Chapter 2 (skim), Chapter 7, Chapter 8, Chapter 26 (skim)

Case application: “Teuer Furniture (A)”

4. Financial Options

- Calls and puts
- Payoff diagrams

BD: Chapter 20

5. Real Options

- Investment projects as real options
- New and improved NPV

BD: Chapter 22

Web: "[The Options Approach to Capital Investment](#)," A. Dixit and R. Pindyck

Case application: "Arundel Partners: The Sequel Project"

II. Dividend Policy

6. Dividend Policy

- MM irrelevance proposition.
- Dividends and Taxes
- Signaling with dividends

BD: Chapter 17

Web: "[The Dividend Puzzle](#)," F. Black

Web: "[Quarterly Dividend](#)," J. Aharony and I. Swary (Sections I and V, Table 2, Figure 1)

Case application: "Dividend Policy at FPL Group, Inc. (A)"

III. Capital Structure

7. Capital Structure Irrelevance

- What is debt and equity?
- MM irrelevance proposition

BD: Chapters 14

8. Capital Structure: Taxes

- Tax subsidies for corporate borrowing
- Adjusted present value and weighted average cost of capital

BD: Chapter 15 and Chapter 18

9. Capital Structure: Financial Distress

- Costs of financial distress

BD: Chapter 16 and Chapter 24.3 (pages 845-848)

10. Capital Structure: Asymmetric Information

- Signaling with capital structure

BD: Chapter 16.8 (pages 564-571) and Chapter 23

Web: "[The Capital Structure Puzzle](#)," S. Myers

Web: "[Equity Issues and Offering Dilution](#)," P. Asquith and D. Mullins (Sections 1 and 5, Tables 2, 3, 5, and 9)

11. Capital Structure: Conflicts of Interest

- Separation of ownership and control
- Private equity

BD: Chapter 16.6 (pages 559-563) and Chapter 29

Web: "[Agency Costs of Free Cash Flow](#)," M. Jensen

Case application: "UST Inc."

IV. Applied Topics

12. Risk Management and Hedging

BD: Chapter 30

Web: "[A Framework for Risk Management](#)," K. Froot, D. Scharfstein, and J. Stein

Case application: "Liability Management at General Motors"

13. Security design & financial innovation

- Convertible securities
- Callable/Exchangeable securities
- Warrants

BD: Chapter 24

Case application: "Safeway, Inc.'s Leveraged Buyout (A)"

LECTURES AND CLASS DISCUSSIONS

The lectures will be based on the outlines in the course packet. You should read the relevant lecture outlines carefully prior to class. I will encourage class participation and preparation is essential.

ASSIGNMENTS

Deadlines for this class are non-negotiable. If you have a question about a deadline, you should resolve your question prior to the deadline. Under special circumstances you may arrange to turn in assignments early. Assignments will not be accepted after the due date and exams may not be taken late. Turning in assignments after the due date or taking an exam later than your scheduled time may provide a student with an "unfair advantage over other students." Students unable to complete the course assignments and exams by the due date will receive a zero and therefore may not pass this class.

Homework Assignments:

Homework assignments are due on the following dates:

Homework 1	January 15 (in class)
Homework 2	January 17
Homework 3	January 22
Homework 4	January 29 (at noon)
Homework 5	February 17
Homework 6	March 10

Only homework assignments 1 and 4 must be turned in for credit. They are worth 25 points each. Homework assignment 1 may be completed and handed in as a group of up to 6 individuals, like the case memos. Homework 4 must be completed individually. (I will explain Homework 4 in greater detail in class and what I mean by individually.) The rest of the homework assignments should be completed for your benefit. Doing the homework will make the concepts much clearer and will help you immensely when it becomes time for the exams. The solution to homework assignment 2 will be discussed in the review session on January 15, but solutions will not be posted or collected (because it is a case). For homework assignments 3, 5, and 6, I will post answers online on the due date, but I will not collect your answers.

Your answers must not only be correct, but also must be clear. Handing in your excel spreadsheets is not considered a sufficient answer. It should be clear both what your answer is and how you arrived at it. With modern software, you are able to integrate the spreadsheets and graphs into the text of your answers. This doesn't mean you should hand in elaborate presentations – these are homework assignments.

Case Assignments:

A case memo (written answer) is due at the **beginning** of class on the day that we discuss each of the following cases:

UST	February 24
General Motors	March 6

Answers to a short web-based assignment are due at the **8 AM** on the day we discuss each of the following cases:

Arundel Partners	January 27
FPL	February 3
Safeway	March 10

Case memos for UST and General Motors are worth 25 points each. While a formal write-up is not required for the remaining cases, I expect you to prepare them diligently. The web-based assignments can be accessed through the course website and are worth 10 points each. I encourage you to discuss and solve the cases in groups, even for the cases for which memos are not turned in for credit. I will not handout answers for the cases.

Each memo should be 3-5 written pages plus tables. Case questions are in your packet. Brevity is a virtue. Do not repeat the facts of the case – I have read it. You should turn in your memo at the beginning of class, but keep a copy as you will be expected to contribute to the class discussion based on your analysis. I expect the answers to be both well reasoned and well presented. The cases are your opportunity to apply the concepts you have learned thus far to messy, real world situations. In the real world, understanding the ideas is important – being able to explain them to your boss and coworkers is equally important. Thus your case write ups will be graded on both your answers and how well you defend your proposed solution.

You may work in groups of up to 6 individuals to prepare the cases. It is sufficient to turn in 1 copy of the case memo per group, but each student should submit the web-based assignments individually. I strongly urge you to work in groups. In the past, groups have been more successful than individuals in preparing the cases. You will find a spreadsheet program essential for preparing your answers. I have provided you with data in Excel format for each case. The spreadsheets are available on the corporate finance web page.

GRADING

There will be two exams. The midterm exam will be given in class on February 6. It will cover the first four weeks of material. The midterm will count for 120 points. The final exam will be given during exam week (the eleventh week of the course). It will cover the entire course. The final will be worth 240 points.

Assignment	Total Points
Face card	10
Homework assignments: 1 and 4	25 each
Case memos: UST, GM	25 each
Case polls: AP, FPL, Safeway	10 each
Midterm	120
Final	240
Total	500

Total score = Face card + HW 1/4 + 2 cases memos + 3 case polls + max (midterm + final, 3/2 final)

REGRADE POLICY

If you feel that your homework assignments, cases, or exams have been graded incorrectly, you can submit a regrade request. I adhere to the Kellogg regrade policy. All requests must be made in writing within 10 working days after the exam or assignment has been graded and returned. They should consist of a short explanation of why you think the grading is incorrect. Upon submission of a regrade request, I will review your entire assignment/exam. Your final grade will be based on this complete review. Therefore, your grade can either be raised or lowered as a result of a regrade request.

HONOR CODE

The Kellogg honor code strictly applies to all aspects of this course, including class assignments, class participation, and exams. Exams are to be completed individually and are closed book. Solutions to previous year's problems should not be used in solving homework or case assignments. The complete honor code can be found on the Office of Student Affairs website. Ask if there is any uncertainty as to how the honor code applies to this course.

OTHER ADMINISTRATIVE DETAILS

The class notes, homework assignments and answers, and past exams are the intellectual property of the instructor. You may not distribute class notes electronically or in any form to any one outside the class or outside Kellogg. You may not duplicate these notes for use by your employers after graduating from Kellogg without my written consent.

Appointments to discuss anything related to the course may be made by e-mailing me at dmatsa@kellogg.northwestern.edu. Please make appointments a day in advance. You may also reach me by phone at 847-491-8337 or by fax at 847-491-5719.