

## COMM 371 – THEORY OF FINANCE – Section 205, Jan - Apr 2009

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**Course Web Page:** All materials are available on WebCT ( <http://www.vista.ubc.ca> )

**Classes:** Tuesday & Thursday, 3:30-4:50, HA 213

**Office Hours:** Tuesday & Thursday, 1:30 – 3:00, and by appointment

### I. Description

This course undertakes in-depth study of specific financial decisions and events that are important in the life of a corporation. The objective is to help the student develop an understanding of the underlying economic issues, and to gain experience applying empirical and theoretical tools. The course builds on the foundation provided by Commerce 370. The course balances theoretical content and practical applications by using several case-studies that are useful for real-life decisions you may need to make. The basic topics are working capital management and financial planning, valuation, moral hazard and adverse selection in financial markets, sources of capital and types of securities, capital structure, and the effect of real options on valuation.

### II. Course Materials

#### *Text*

The textbook for the background reading required in this course is:

(RWJR) Ross, Westerfield, Jaffe, and Roberts, *Corporate Finance*, Fifth Canadian Edition, McGraw-Hill Ryerson, 2008.

This text will be the basis for several lectures. Several copies of this text are on reserve in the David Lam Library for your exclusive use.

#### *Reading Packet*

This is required and available from Duplication Services Center in Henry Angus 423. The packet contains two cases that we will use throughout the course.

### ***Additional Reading Material***

There may be articles that appear as required readings in the course outline but are not included in this packet. These are available for download on the course home page.

### ***Lecture notes and supplements***

Lecture notes and supplements will be posted on the course web page several days before they are discussed in class. You should check the course website for updates regularly, and print and bring the lecture notes to class. In addition, it will often be helpful for you to read these notes before coming to class. Lecture notes are made available for your convenience, but be aware that these notes may contain typos and other problems.

## **III. Evaluation**

### ***Group Project***

Groups of 3-4 students will work on two cases that I will announce later during the course. The write-ups are due one week after they are announced in class. Try to form your own groups as quickly as possible. If you have difficulty, let me know and I will assist you. Completion of the projects is required for a passing grade. Marks are based on the project, and thus all members of a group will receive the same mark. No solution will be posted for this project.

### ***Exams***

There will be a mid-term and a (cumulative) final examination. You are required to take **both** exams. If you miss an exam, you must contact the Undergraduate Office immediately and provide them with the documentation necessary to justify your absence. You will keep good standing in the course **only** if the Undergraduate Office confirms the validity of your excuse. Any student who misses the mid-term will have all of the weight from that exam transferred to the final exam. ***The midterm will be on Saturday, February 28 at 10 am.*** Date and time for the final exam will be announced later.

### ***Weighting***

6 Homework assignments	6%
2 group Cases	4%
Midterm Exam	35%
Final Exam	55%

Each homework assignment is worth 1 point and cases are worth 2 points each. Be prepared that you may have less than one week to work on an assignment. As long as you submit the homeworks and the cases and exhibit that you have exerted serious effort, you will get the full credits.

## **IV. Days without class**

Reading Break Feb 16th to Feb 20th

## Course Outline (subject to changes)

### TOPIC

### BACKGROUND MATERIAL

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	Ch 1 & Ch 2
<b>Raising Capital</b>	Lecture 1 / Ch 15
<b>Capital Budgeting with Debt</b>	Ch 8 & Ch 13 (quick background reading)
• The basics: WACC, APV, & FTE	Lecture 2 / Ch 18
• APV Example: Valuation of Delphi	Lecture 3
• Using APV	Lecture 4 / Luehrman article
<b>Financial Planning</b>	Lecture 5 / Ch 3
<b>Working Capital</b>	
• Short-Term Financial Planning	Lecture 6 / Ch 27
• Financing Growth	Lecture 7 / Clarkson Lumber case
• ABC example & simulation	Lecture 8 / Excel spreadsheet
<b>Capital Structure</b>	
• Review of Theory & Empirical Facts	Lecture 9 / Ch 16 & Ch 17
• Financial Distress Costs	Lecture 10 / Cutler & Summers article
• Capital Structure & Product Market Competition	Lecture 11 / Massey-Ferguson, 1980 case
<b>Information Asymmetries in Financial Markets</b>	
• The Moral Hazard Problem	Lecture 12 / Ch 17.6
• The Adverse Selection Problem	Lecture 13 / Ch 17.5 & Ch 19 p548-p550
<b>Real Options and Valuation</b>	Ch 23 & Ch 24
• Managerial Options & Capital Budgeting	Lecture 14

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