

Syllabus for ECO359H1S. Financial Economics II: Corporate Finance

The aim of this course is to give you an overview of the major theories, tools and results in corporate finance. Modern finance is a highly mathematical field, and we will use some math. However the purpose of using math is to enhance one's understanding, 'the major hurdles in Finance are conceptual rather than mathematical' (John Cochrane). We will not go through all institutional details — I leave this for your securities courses. The course focusses mainly on theoretical issues, but naturally we also want apply the ideas to understand some real-world examples.

Course Information

Class Times: Mondays. Section L0101: 14-16. Section L5101: 18-20.
Class Location: Section L0101 (day): SS 2108. Section L5101 (evening): SS2127.
Office Hours: Mondays 1-2pm (Michael Brolley, GE 313)
Tuesdays 4:50-5:50pm (Professor Malinova, GE 211)
Course Webpage: <http://portal.utoronto.ca>

My office: Max Gluskin House 211 (GE 211), 150 St. George Street.
Phone: 416 978 5283.
Email: katya.malinova@utoronto.ca

Exclusions: ACT349H, MGT331Y, MGT337Y, RSM333H.
Prerequisite: ECO358H.

TA Support

We have two teaching assistants for the course: Michael Brolley (michael.brolley@utoronto.ca) and Nathan Halmrast (nathan.halmrast@utoronto.ca).

Exclusions: ACT349H1, MGT331Y1, MGT337Y1, RSM333H1, ECO359H5

Prerequisites: ECO358H1 Prerequisites are strictly checked and enforced and must be completed before taking a course.

Academic Integrity and Respect: An important part of your university education involves always choosing to behave with integrity despite difficult and tempting situations. As explained in the University of Toronto *Code of Behaviour on Academic Matters*, academic integrity is a serious matter. Also, you are expected to respect your classmates

and me. For example, during lecture do not chat, surf the Internet, read the newspaper, sleep, eat nor engage in any other disruptive behaviors.

Exams and Grade Composition

There will be three exams: two in-class midterm tests (check the webpage for the location!) and a final. The weights are as follows:

- Midterm 1: 30%
- Midterm 2: 30%
- Final: 40%

If (i) you obtain a score of at least 30% on your worst midterm and (ii) your score on the final is better than your worst midterm score, then your worst midterm will not count and its weight will be automatically shifted towards the final. Specifically, provided your worst midterm score is above 30%, your course-grade is determined as follows

$$\begin{aligned} & 40\% \times \text{final} \\ + & 30\% \times \max\{\text{midterm I}, \text{midterm II}\} \\ + & 30\% \times \max\{\text{final}, \min\{\text{midterm I}, \text{midterm II}\}\}. \end{aligned}$$

If your worst midterm score is below 30% or if your score on the final is below that of your worst midterm, then no weight redistribution will occur.

Appeals. If you appeal to re-grade one of the exam questions, we will re-grade the *entire* exam. Note that this may lead to a lower overall grade. Your complaint has to be in writing, it must be submitted within two weeks from the day that graded midterms become available for pick-up, and it must explain why you believe grading to be incorrect. These conditions do not apply to clerical errors (i.e. adding your scores incorrectly); if a clerical error occurs, please notify me as soon as possible.

Midterm Tests

Dates: The midterms will be written during class. The first midterm will take place on January 31 (in class), the second takes place on March 13 (again, in class). Exam room locations will be announced in class and on the course webpage. **Important: the test locations will differ from your regular classroom locations!**

Missing a Midterm: No make-up exams are offered for missed midterms. A missed midterm counts as 0. In the exceptional circumstances when you miss a midterm for legitimate reasons (and provide substantiating evidence, e.g. for an illness, a convincing University of Toronto Medical Certificate is required), I will shift the weight of that midterm to the final exam.

Problem Sets

There will be no graded problem sets, however sample (“practice”) problems will be made available to you.

Email Communication

I will use the email system frequently to send out material, such as announcements about office hours etc. I will use Blackboard to compile the email distribution list from your entries in ROSI. It is thus imperative that you **update your email-address on ROSI ASAP** and *that you register on ROSI with a @utoronto.ca-email-address!* Otherwise the messages won’t go through or I receive messages from “noemail@utoronto.ca.” Please check also the Blackboard system frequently for up-to-date information.

I will reply to legitimate email inquiries from students within two working days. If you do not receive a reply within this period, resubmit your question(s) and/or call me at my office number (please do not leave voice messages, except in an emergency – these are typically impossible to decipher). I will not answer emails over the weekend (Friday 17:00 – Monday 10:00), and I will not answer emails in the last 36 hours before a test. Please note that some email servers (such as hotmail) are unreliable in both sending and receiving messages.

Students must make sure that their messages do not include language or logos or reply email addresses that may be offensive. I will not respond to emails that don’t abide by this rule.

Each email message must include in the “subject” the course number and a concise and clear statement of purpose — otherwise it will be deleted, along with spam messages, financial scam letters and messages potentially containing viruses. In the first few weeks of class, please include you *full name* and your *student number* in your message.

Do NOT send any attachments with your email messages.

Students should make sure that they consult the course outline, other handouts and the course website BEFORE submitting inquiries by email.

Where a question cannot easily or briefly be answered with a reply email, I will simply indicate to the student that s/he should see me during the announced office hours.

Email should NOT be seen as an alternative to meeting with me during office hours. Nor should email be used as a mechanism to receive private tutorials (especially prior to tests) or to explain material that was covered in lectures. In summary, I will try to answer your emails promptly, but you should expect that I will ask you to come to my office hour for questions that require lengthy answers.

Information about the Blackboard System — The Official Statement from the University

What follows is the university's official statement; it is not corrected for typographical errors.

Logging in to your Blackboard course website. Like a many other other courses, ECO359 uses Blackboard for its course website. To access the ECO359 website, or any other Blackboard-based course website, go to the UofT portal login page at portal.utoronto.ca and login using your UTORid and Password. Once you have logged in to the portal using your UTORid and Password, you'll find the link to ECO359 course website along with the link to all your other Blackboard-based courses.

Activating your UTORid and password. If you need information on how to activate your UTORid and set your password for the first time, please go to www.utorid.utoronto.ca. Under the "First Time Users" area, click on "activate your UTORid" if you are new to the University or "create your UTORid" if you are a returning student, then follow the instructions. New students who use the link to "activate your UTORid" will find reference to a "Secret Activation Key". This was originally issued to you when you picked up your T-card at the library. If you have lost your "Secret Activation Key" you can call 416-978-HELP or visit the Help Desk at the Information Commons on the ground floor of Robarts library to be issued a new one. **The course instructor will not be able to help you with this.** 416-978-HELP and the Help Desk at the information commons can also answer any other questions you may have about your UTORid and Password.

Email communication with the course instructor. At times, the course Instructor may decide to send out important course information via email. To that end, all UofT students are required to have a valid UofT email address. You are responsible for ensuring that your UofT email address is set up AND properly entered in the ROSI system. You can do that by using the following instructions:

To submit the information to activate your UTORid and Password (see above), you will need to click the “Validate” button. Follow the instructions on the subsequent screens to receive your utoronto.ca address. Once you have your UofT email address go to the ROSI system, (www.rosi.utoronto.ca) log in and update the system with your new institutional email address.

You can check your UofT email account from either

1. The UofT home page <http://www.utoronto.ca/> (Choose “quick links” - choose “myutoronto.ca” - enter your UTORid and Password - choose “webmail” Or
2. Via Outlook, Mozilla etc. Visit the helpdesk at the information commons for help with the set up.

Forwarding your utoronto.ca email to a hotmail, gmail, yahoo mail or other types of accounts is not advisable. In many cases, hotmail/gmail/yahoo automatically filters email from any utoronto.ca address into the junk mail folder. Therefore emails from your course instructor will end up in your junk mail folder.

You are responsible for:

1. Ensuring you have a valid UofT email address that is properly entered in the ROSI system
2. Checking your UofT email account on a regular basis.

The official statement ends.

Tentative Course Structure

Specific literature and book chapter references will be posted on the course website. Please check the webpage regularly to obtain the most up-to-date course information.

Week 1 Introduction, Basic investments.

Week 2 Basic of accounting and balance sheet analysis, NPV and other investment valuation tools; basics of real options.

Week 3 Capital Budgeting under uncertainty. Background on long-term financing.

Week 4 Midterm I.

Week 5 Modigliani-Miller: Capital Structure.

Week 6 Modigliani Miller and Dividend Policy, an overview of Agency Costs.

Week 7 Managerial Effort and Capital Structure; optimal contracting with debt and equity; a case study on how financial leverage promotes internal change.

Week 8 Background on Air Canada's restructuring; Underinvestment: The Debt Overhang Problem.

Week 9 Midterm II.

Week 10 Corporate Governance.

Week 11 Mergers and Acquisitions.

Week 12 Initial Public Offerings; Overview and popular models.

Literature

The main text:

- Ross, Westerfield, Jaffe, Roberts: *Corporate Finance*, McGraw-Hill. 6th Canadian Edition. Hereafter: RWJR.

Earlier editions are acceptable for background reading, but keep in mind that practice problems will be assigned from the latest (6th) edition.

Optional Reading:

A helpful textbook, which is a classic text and your choice for a second opinion, is

- Thomes Copeland and Fred Weston: *Financial Theory and Corporate Policy*, Addison-Wesley.

If you would like to have a look at a more advanced text, check

- Jean Tirole: *The Theory of Corporate Finance*, 2006, Princeton University Press. This is a great textbook; it covers much more than this course, but some topics that are covered (specifically those in the second half of the course), are explained very nicely.

As the course progresses, I will update the reference list for each lecture. Please check the portal's webpage frequently.