

Syllabus for ECO359H1F. Financial Economics II

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. Students are required to follow current events.

Course Information

Class Times: **Tuesdays. Section L0101: 2-5pm. Section L5101: 5-8pm.**
Specific Lecture/Tutorial Breakdown TBA.

Class Location: WI 1017 (both sections).

Term Tests: In-class on February 09 and March 22.

Section L0101: 3-5pm. Section L5101: 5–7pm

Test Location: **TBA (may be different from your lecture rooms!)**

Instructor: Professor Malinova.

My office: Max Gluskin House 211 (GE 211), 150 St. George Street.

Phone: 416 978 5283.

Email: katya.malinova@utoronto.ca

TAs: TBA

Office Hours: Tuesdays 11-noon (Professor Malinova, GE 211); some exceptions.

TA hours: TBA.

Regular office hours are held only in term (through April 08),
except for the weeks of your term tests and the fall break.

*Please see portal for the office hour schedule during the weeks of
your term tests and during the study and exam period.*

Course Webpage: <http://portal.utoronto.ca> (not yet fully operational)

Exclusions: ACT349H1,RSM332H1.

Prerequisite: ECO358.

Tests, Exams, and Grade Composition

There will be three exams: two in-class midterm tests (2 hour-long 3-5pm and 5-7pm; check the course webpage for the test location) and a 3-hour final. The weights are as follows:

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

If your score on the final is better than your worst midterm score **and** your worst midterm score is above 30%, 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 both of your midterm scores are below 30% or if your score on the final exam 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. This may lead to a lower or higher 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 Professor Malinova as soon as possible.

Midterm Tests

Dates: The midterms will be written during class. The first midterm will take place on February 09 (in class, **3-5pm and 5-7pm**), the second takes place on March 22 (again, in class, **3-5pm and 5-7pm**). Exam room locations will be announced in class and on the course webpage. **Important: the test locations may differ from your regular classroom locations!**

Term Test Coverage: If a concept, skill, or topic is addressed in lectures, readings, or on Blackboard, then it is testable. Additionally, you are required to follow current events.

Missing a Midterm Test:

Midterms are crucial components of our course, and they are compulsory. A missed midterm counts as 0.

When you miss one midterm for legitimate reasons, I will shift the weight of the missed midterm to the final exam. To receive this accommodation, please provide Professor Malinova with the relevant supporting documentation within **one week** of the missed test. In the event of an illness, you must provide a medical note (original, not scanned or e-mailed). The only accepted note be a fully completed *University of Toronto Verification of Student Illness or Injury form*. See <http://www.illnessverification.utoronto.ca> for details. The form must be completed by a qualified medical doctor or nurse practitioner (e.g., not an acupuncturist, chiropractor, or other health care professional); the doctor's OHIP registration number must be provided.

You may leave this documentation with the Econ Dept reception at 150 St. George St. or hand it in during lecture/office hours.

Problem Sets

There will be no graded problem sets, however sample (“practice”) problems will be made available to you. We will additionally provide answers and hints to *select* (i.e., not all!) problems. Full length solutions will not be provided, but we are happy to discuss them during our office hours. Please keep in mind that while these problems are helpful to check whether you understand the concepts taught in lecture, working through them is not sufficient to gain deep understanding of the material that is required in this course.

Textbook:

Corporate Finance, 3d Canadian Edition, by Jonathan Berk, Peter DeMarzo, David Stangland, Plus MyFinanceLab; ISBN-10: 0133552683, ISBN-13: 978-0133552683. If you use a different edition, be aware that you will be responsible for reconciling the differences. The book is also available as an eText. MyFinanceLab is an optional textbook resource that provides some practice questions (we may recommend selected ones; most of these test only the basic understanding and they may thus be easier than your actual test/exam questions.) Instructions for accessing MyFinanceLab will be posted on Blackboard.

Tentative Course Structure

Note: the literature references below are to chapters in Berk et al. literature reference will be updated on Blackboard as the term progresses. Several lectures may be based solely on lecture notes with little or no textbook reference.

Week 1 Introduction. Basic principles of Valuation. NPV & Alternative Rules of Investment. Ch. 1,3,8.

Week 2 Fundamentals of Capital Budgeting: forecasting earnings and estimating free cash flows. Ch. 9.

Week 3 Estimating the cost of capital. Ch. 12. Capital Structure in a Perfect Market. Modigliani-Miller Theorems. Ch. 17.

Week 4 Capital Structure (cont'd). Capital Structure Decisions with taxes. Ch. 17, 18.

Week 5 Midterm I.

Week 6 Capital Structure Decisions with taxes (cont'd). The effect of Financial Distress, Managerial Incentives, and Information on Capital Structure. Ch. 18,19.

Week 7 Financial Distress, Managerial Incentives (cont'd). Payout Policy. Ch. 19, 20.

Week 8 Capital Budgeting and Valuation with Leverage. Ch. 21.

Week 9 Practical Considerations & Empirical Evidence on Capital Structure Choices. Using Real Options in Valuation Decisions. Ch. 16.

Week 10 Midterm II

Week 11 Long-Term Financing, focusing on Raising Equity Capital & Initial Public Offerings (IPOs). Ch. 23.

Week 12 Mergers and Acquisitions. Ch. 28.

Email Communication

To maximize your chances of receiving a timely response from us, please include "ECO359" in the subject line.

I will use Blackboard to post and to send out announcements. It is imperative that you **update your email-address on ROSI** and *that you register on ROSI with a U-of-T-email-address!*

If you have a question that is not addressed in any of the course materials, please send an e-mail to one of our TAs (emails TBA). Where a question cannot easily or briefly be answered with a reply email (e.g., it requires that we solve a lengthy practice problem prior to responding), we will indicate to you that we will need to chat during the announced office hours.

We aim to reply to legitimate email inquiries from students within 24 hours during the week; e-mails received on Friday night, during the weekend or during a holiday will be filed for reading on the next business day. If you do not receive a reply within 2 working days, please resubmit your question(s).

If not using the Blackboard system, please include in the "subject" the course number and please include your *full name* and your *student number* in the body of your message. Please do NOT send any attachments with your email messages.

Information about the Blackboard System

Like many other other courses, ECO358 uses Blackboard for its course website. To access the ECO358 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.

If you experience any problems, please check the Blackboard's information page for students, located at <http://portalinfo.utoronto.ca/content/information-students>

Academic Integrity and Respect

Academic integrity is fundamental to learning and scholarship at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the U of T degree that you earn will be valued as a true indication of your individual academic achievement, and will continue to receive the respect and recognition it deserves.

Familiarize yourself with the University of Torontos Code of Behaviour on Academic Matters (<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>). It is the rule book for academic behaviour at the U of T, and you are expected to know the rules. Potential offences include, but are not limited to:

On tests and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone elses answers
- Letting someone else look at your answers.
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying or altering any documentation required by the University, including doctors notes.
- Falsifying institutional documents or grades.

The University of Toronto treats cases of academic misconduct very seriously. All suspected cases of academic dishonesty will be investigated following the procedures outlined in the Code. The consequences for academic misconduct can be severe, including a failure in the course and a notation on your transcript. If you have any questions about what is or is not permitted in this course, please do not hesitate to contact me. If you have questions about appropriate research and citation methods, seek out additional information from me, or from other available campus resources like the U of T Writing Website. If you are experiencing personal challenges that are having an impact on your academic work, please speak to me or seek the advice of your college registrar.

Finally, 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 behaviours.