

ECO359 Financial Economics II

Summer 2017

Lecture Times Tuesdays and Thursdays 3-5pm

Lecture Location WO25

Instructors Tomy Lee

Daniel Chippin

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Office Hours Tuesdays 1-2pm (tentative)

Tuesdays 1-2pm (tentative)

Office Location GE213 (tentative)

GE213 (tentative)

TA Haofei Zhang

TA Hours Tuesdays and Thursdays 2-3pm

TA Location WO25 (lecture room)

This course aims to answer the central question in corporate finance: how can one maximize firm value? To answer this question, we will cover (i) analytic tools to evaluate investment projects, bonds, stocks and firms, and (ii) theories explaining conflicts of interest, imperfect information and other market frictions that affect firm value. The first half of the course will focus on (i) and the second half will focus on (ii).

Text: *Corporate Finance*, 7th Canadian Edition

By Ross, Westerfield, Jaffe and Roberts

ISBN-13: 978-1259103599

Course Objectives: At the completion of this course, students will be able to:

1. Compare investment opportunities.
2. Value bonds, stocks and firms.
3. Describe the tradeoffs firms face when choosing their capital structure.
4. State the differences between major types of bonds and stocks.
5. Explain key problems in corporate management and related economic theories.

Grade Distribution and Important Dates:

First Class		July 4th
Midterm Test	35%	July 25th (in class; 2-5 pm)
Drop Date		July 30th
Project	15%	Assigned after midterm
Final Exam	50%	TBD

Class Conduct

- Students are encouraged to participate by asking questions to clarify or increase understanding of lecture material.
- To ensure optimal learning environment, we ask all students to refrain from conversing or otherwise creating noise during lecture including by eating, playing music/sound, etc.
- We ask that students talk to us before recording any lectures.

Communication with Instructors

- Our primary way of distributing announcements and course material is Blackboard (<https://portal.utoronto.ca/>).
- Lecture slideshows will be posted on Blackboard after class.
- Explanations and examples accompanying the slides will *not* be posted.
- We aim to answer emails within 2 business days.
- Please put “ECO359” in the subject line.
- Emails asking for information already in syllabus or on Blackboard will not be answered.
- Questions related to course material are best answered in person during office hours/TA help hours/after lecture, and so we may not answer emails containing such questions (or answer them by asking you to come talk to us in office hours/after lecture).

Midterm and Exam

- Formula sheet will be provided (otherwise closed book, closed notes).
- Only non-financial, non-programmable calculators are allowed.

Missing the Midterm Test

- Those who miss the midterm must write a makeup test (date/time TBD).
- Any non-emergency, non-medical reason for missing the midterm must be provided to an instructor via email or a written note at least **1 week** in advance of the midterm.
- In case you miss the midterm for a non-medical emergency, you must provide an email or a written note to an instructor describing the emergency within **1 week** of the midterm.
- In case you miss the midterm for a medical reason, you must provide a completed physical copy of “Verification of Student Illness or Injury” form available on <http://www.illnessverification.utoronto.ca/index.php> or a “Student Health or Disability Related Certificate” within **1 week** of the midterm.

Academic Honesty Policy Summary:

Familiarize yourself with the University of Toronto's 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:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Copying material word-for-word from a source (including lecture notes) and not placing the words within quotation marks.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Including references to sources that you did not use.
- Obtaining or providing unauthorized assistance on any assignment including:
 - working in groups on assignments that are supposed to be individual work;
 - having someone rewrite or add material to your work while "editing".
- Lending your work to a classmate who submits it as his/her own without your permission.

On tests and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's 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 doctor's 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, seek out additional information from me or the U of T Writing Website (<http://writing.utoronto.ca/writing-centres/arts-and-science/>). 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.

Tentative Course Outline:

Readings refer to sections within the course text (*Corporate Finance 7e* by Ross et al.) and are listed in the recommended reading order. Some lectures may be too long or short for one class. If too long, the lecture may continue in the next class. If too short, the next lecture may start being taught one class earlier. Content listed here will be covered as time allows.

Lecture	Content
1	<ul style="list-style-type: none">• Course outline, introduction to corporate finance, basics of valuation• Readings: 1.1, 5.1, 5.2, 5.3 (skip “Continuous Compounding”), 5.4
2	<ul style="list-style-type: none">• Valuing and comparing investments using net present value• Readings: 4.7, 7.1, 8.1, 8.3
3	<ul style="list-style-type: none">• Decision trees and real options• Readings: 9.1, 9.2 (skip “Break-even Analysis”), 9.4
4	<ul style="list-style-type: none">• Introduction to firm valuation; bond and stock valuation• Readings: 16.1, 16.2, 6.1, 6.2 (skip “A Note on Bond Price Quotes”), 6.3 (skip “Holding Period Return”), 6.4, 6.5 (skip “Healthy Sense of Skepticism”), 6.6 (skip last two parts)
5	<ul style="list-style-type: none">• Firm value and capital structure• Readings: 16.3 (skip “Leverage and Return to Shareholders”), 16.5 (skip last two parts), 17.9
6	<ul style="list-style-type: none">• Costs of financial distress and debt as signal to investors• Readings: 17.1-17.6
7	<ul style="list-style-type: none">• Midterm Test (in class; 2-5 pm)
8	<ul style="list-style-type: none">• Theories and evidence on capital structure, long term financing• Readings: 17.7, 17.8, 17.10, 15 (all sections)
9	<ul style="list-style-type: none">• Dividends and other payouts• Readings: 19 (all sections)
10	<ul style="list-style-type: none">• Executive stock options and financial distress• Readings: 24.1, 31 (all sections)
11	<ul style="list-style-type: none">• Mergers and acquisitions, initial public offerings• Readings: 30, 20 (all sections for both chapters)
12	<ul style="list-style-type: none">• TBD• Readings: TBD