

Financial Economics II: Corporate Finance

ECO358 – Fall 2018

Section LEC0101: T2-5

Section LEC0201: W2-5

Course Description

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 rather, you and I will focus on theoretical issues and applications to the real-world.

Instructor & TA information

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Prerequisites

You must have completed the appropriate prerequisites to continue in this course:

<https://www.economics.utoronto.ca/index.php/index/undergraduate/load/prerequisites>

Learning outcomes

If successful, you will be able to:

- Identify the *investment principle* through quantitative rules and apply these rules to various projects.
- Identify the *payout principle* and explain how it is affected in a world with asymmetric information.
- Identify the *financing principle* and how it relates to the weighted average cost of capital.

Textbook

“Corporate Finance” by Jonathan Berk, Peter Demarzo, and David Strangeland, 4th Canadian edition, Pearson (required). This book contains the homework problems. An online version will be available through the eBookstore or directly from the publisher.

“Applied Corporate Finance” by Aswath Damodaran, 4th ed., Wiley. This is a more advanced, MBA level, application of corporate finance. Occasionally, I will draw notes from this text, but you do not need to buy. I would recommend it if you wish to study further in corporate finance.

“Investment Banking” by Joshua Rosenbaum and Joshua Pearl, 2nd university edition, Wiley. This is corporate finance with a focus on banking. Occasionally, I will draw notes from this text, but you do not need to buy. I recommend it if you wish to pursue a career in investment or corporate banking.

iClicker

During class time, iClicker questions encourage you to prepare for class, talk about economics and accounting, and identify misunderstandings. Like any class participation, quality matters. Correct iClicker responses earn full marks. This will reward you for completing the assigned readings and remaining attentive in class.

It is your responsibility to: correctly register your iClicker, bring it to class, arrive on time, and stay for the entire class. You may collaborate with your classmates: in fact, you are encouraged to do so. Register your iClicker on Quercus to avoid any additional fees. You can find instructions here:

<http://teaching.utoronto.ca/ed-tech/teaching-technology/iclickers/registering-your-iclicker/>

Your replies are recorded even if you are not registered, but you must register to earn credit for your work.

How can I tell if my iClicker is working? When your response is received by an iClicker base, a green light illuminates on your iClicker remote. Please make sure to vote only while voting is active in our

class. A red light (or no light) indicates a problem. The last answer you press (while voting is still active) is graded. Nearly all strange remote behavior can be fixed by replacing ALL batteries. For support call 866-209-5698 or visit <http://support.iclicker.com/>.

How can I be sure if I am earning marks with my iClicker? There are two separate requirements: (1) attend class, answer while voting is active, and get a green light and (2) properly register your iClicker on **Quercus**. If you're still worried, you may ask me to following class.

Calculator

You will want (but are not required to have) a non-programmable financial calculator such as the:

1. Texas Instruments BA II Plus (including BA II Plus Professional)
2. Hewlett Packard 12C (including the HP 12C Platinum, 12C Platinum 25th anniversary edition, 12C 30th anniversary edition, and HP 12C Prestige)

These are the only two calculators approved for the CFA exams which many of you are considering. You may use an alternative non-programmable calculator, but I cannot guarantee it will perform the necessary actions. Basically, you want a calculator that can perform present value calculations but is also non-programmable.

Website

Announcements and course material will be posted on Quercus.

Office Hours

I hold office hours every Thursday beginning January 17, from 1-3 PM. You may book 15 minute sessions to discuss course material or administrative issues. To make a reservation, please visit the Google document:

<https://docs.google.com/spreadsheets/d/1AbIoYNv1le9Vt4zM0WZTssPs1BnFrQ3IioDrOUQEjI0/edit#gid=0>.

If this time does not work for you, please email me to arrange a meeting. I will do my best to accommodate you within a reasonable period of time.

Teaching assistants will hold weekly office hours. You will be able to find their schedule on Quercus no later than the second week of classes.

Email policy

The best form of communication in this course is in person, either with myself or a TA, during lecture, immediately following lecture, and office hours. Generally, I do respond to questions about course content via email. In the event that an e-mail communication is needed, please use your UTOR e-mail account (the "utoronto" account). E-mails from other accounts may not reach my inbox and your email helps me identify you. Please include the course code, your full name as it appears on Acorn, preferred

name, and student number in the body of the email. Also, please **include the course code in the subject line**. For e-mails asking for a reply, I will reply within three business days. If I fail to do so, you should assume I forgot and re-send your message to remind me.

Evaluations

	Date	Grade
Term Test 1	TBA	20%
Term Test 2	TBA	20%
Class Participation	Weekly	10%
Online quizzes	Weekly	5%
Final exam	Exam period: April 6-30	45%

Note: The term tests will be held outside of regular class hours! Time and location will be announced on Quercus. Regarding exams, please do not make any travel plans until the examination period has ended.

The term tests will consist of written-answer questions. The final exam will be **cumulative** – you must not forget what you’ve already learned!

There will be a number of online quizzes throughout the semester. These questions will test your knowledge and understanding to help prepare you for class – they are **NOT** necessarily representative of test question difficulty!

Our course has been chosen for a University of Toronto approved academic research program. The principal investigator is Linda Wang (ld.wang@mail.utoronto.ca). You will have an opportunity to earn a maximum bonus worth 5 percent of your final grade. There are three possible bonus marking schemes:

- A) You will receive a five percent bonus on your term test 1 score. For example, if you get 60/100 on your first term test, you will earn a $60(0.05)=3.0$ addition to your final grade.
- B) You will receive a five percent bonus on the average of your two term tests. For example, if you get 60 in your first midterm and 80 in your second midterm, the average is 70. You will receive a $70(0.05)=3.5$ addition to your final grade.
- C) You will receive a five percent bonus on your term test 2 score. For example, if you get 80/100 on your second term test, you will receive a $80(0.05)=4.0$ addition to your final grade.

You may choose which system you prefer however it does not guarantee you will receive your preference! You will have a 50% probability of receiving your preferred system and a 25% probability for each of the other schemes. If you don’t have any preference, you can choose **option D** to be assigned to the three systems with equal probability. Selection will occur through email and U of T Quercus during Week three. You will decide whether you wish to participate in this study, and you will be asked to complete a short course survey. If you do not make your decision by January 25, you will be assigned option D. Your data will be kept confidential by Linda Wang and myself. For the purposes of marking, you will be notified about which scheme you have been assigned no later than January 29.

You cannot switch the marking scheme you’ve been assigned. No matter which marking scheme you receive, Linda and I encourage you to put continuous effort in the entire course. Furthermore, your preferred option, participation in the study, and survey will be kept anonymous from me, Robert J.

McKeown, until the final exam has been written. If you have any questions, please ask Linda Wang or myself.

In-Class Participation

Participation grades can be earned in the following ways: (i) attending class, (ii) correctly answering iClicker and written end-of-class questions, and (iii) participating in class discussions. At the end of the academic year, if you facilitate learning in the classroom in a remarkable fashion, I reserve the right to boost your final grade commensurate with your contribution. You earn two marks for answering each question and an additional two marks if you respond with the correct answer. Each class, you earn a percentage of the total marks available which counts towards your final participation grade. You may miss one class without negatively affecting your grade however subsequent absences will receive a grade of zero for that class.

Missed tests

If you miss a term test for a certified medical reason, or other approved cause, you must provide printed documentation (such as a medical note or death certificate) to validate your absence. Acceptable medical notes include the UofT Verification of Illness or Injury Form, Student Health or Disability Related Certificate, a College Registrar's Letter, or an Accessibility Services Letter. Further, you must submit the document(s) to me **in person within five business days** following the term test. You may do so either immediately following lecture or during my office hours. If you miss a term test, your grade-weight will shift to the makeup term test. The makeup test time and location will be announced on Quercus. If you miss the makeup test for any reason, you will receive a grade of zero.

You may find the the University of Toronto official Verification of Student Illness or Injury form here: <http://www.illnessverification.utoronto.ca/index.php>

Appealing your grade

Disputes over the evaluation of a test should be discussed with me. Disagreement with the marking means that an error might have been made – for instance, the marker failed to consider a part of your answer. Conversely, suggesting that you believe you deserved a higher grade is not a valid reason for a re-grade. After reviewing the solution posted on the course website, submit in person the re-grade request form on Quercus. You must submit your appeal no later than one week after the solutions have been posted on Quercus. Please note that all questions will be remarked – not only the question in dispute!

Crowdmark

The department of economics has secured Crowdmark for all of our undergraduate course offerings. Crowdmark is a 'collaborative online grading and analytics platform that helps educators evaluate student work more effectively.' Your term tests will be scanned and uploaded to Crowdmark. It is here that your work will be graded.

Academic integrity

Academic integrity is one of the cornerstones of the University of Toronto. It is critically important both to maintain our community which honours the values of honesty, trust, respect, fairness and responsibility and to protect you, the students within this community, and the value of the degree towards which you are all working so diligently. According to Section B of the University of Toronto's Code of Behaviour on Academic Matters <http://www.governingcouncil.utoronto.ca/Assets/Governing+Council+Digital+Assets/Policies/PDF/ppjun011995.pdf>, which all students are expected to know and respect, it is an offence for students:

- To obtain unauthorized assistance on any assignment.
- To provide unauthorized assistance to another student. This includes showing another student completed work (e.g., an answer on a test).
- To falsify or alter any documentation required by the University. This, includes, but is not limited to, doctor's notes.
- To use or possess an unauthorized aid in any test or exam (e.g., a cell phone).
- To continue writing when the time is up in any test or exam.
- To submit a medical note to get out of a test when the student is not actually sick.

There are other offenses covered under the Code, but these are by far the most common. Please respect these rules and the values which they protect. For useful tips for avoiding academic misconduct, please visit the website of the Office of Student Academic Integrity at <http://www.artsci.utoronto.ca/osai/students/avoid-misconduct>.

Course Content

- 1 Fundamentals of Capital Budgeting
 - 2 Estimating the cost of capital
 - 3 Capital Structure Decisions with taxes
 - 4 The effect of Financial Distress
 - 5 Managerial Incentives, and Information on Capital Structure
 - 5 Payout Policy
 - 6 Capital Budgeting and Valuation with Leverage
 - 7 Using Real Options in Valuation Decisions
 - 8 Long-Term Financing: Equity & Initial Public Offerings (IPOs)
 - 9 Mergers and Acquisitions
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Get-to-know-your-classmates game – yay!

- A) Introduce yourself to someone you don't already know.
 - B) See which question she/he can answer, record her/his name and move on to meet another colleague!
1. Who has an internship with a financial institution in Canada this summer?

 2. Who wrote the CFA level I exam in December?

 3. Who spent a semester or more at another university or college?

 4. Who has completed the Canadian Securities Course?

 5. Who has taken a computer programming course or is a proficient programmer in one or more language?

 6. Who speaks French or Spanish proficiently?

 7. Who lives less than a 30-minute walk or commute from campus?