

# UNIVERSITY OF TORONTO

## ECO359H1S-Financial Economics II: Corporate Finance WINTER 2020

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**Professor:** Anton Tsoy

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**Office:** Max Gluskin House, 150 St. George Street, 212

**Office Hours:** Monday 9-10; Tuesday 1-2

**Class:**

- section L0101 — Monday 10-1 // room SS 2118
- section L0201 — Tuesday 2-5 // room SS 2102

**TAs:**

section L0101:

- Alison Kathleen Taylor: alisonkathleen.taylor@mail.utoronto.ca
- Uluc Sengil: u.sengil@mail.utoronto.ca
- Steven Huynh: steven.huynh@mail.utoronto.ca

section L0201:

- Sobia Hasan Jafry: sobia.jafry@mail.utoronto.ca
- Sedat Ersoy: sedat.ersoy@mail.utoronto.ca

**TA Office Hours:** TBD

**Webpage:** Quercus Website

## **Course Description**

This course examines how capital structure, bankruptcy, payout decisions, insider trading, options-based valuation, and risk management affect shareholder value. We begin discussing optimal capital structure and the role of taxes, bankruptcy costs, the going public decision, agency problems and the effect of asymmetric information on financing and cash payout policies. In the second part of the course, we will study real options models, M&A, IPO, corporate governance, as well as advanced security design and hedging policy.

## **Prerequisites**

I will assume that all of you have taken the prerequisites for this course. See the Academic Calendar for prerequisites and exclusions. Prerequisites are strictly checked and enforced and must be completed before taking a course. By taking this course you acknowledge that you will be removed from the course at any time if you do not meet all requirements set by the Department of Economics.

## **Textbook and Course Materials**

The textbook for this course is Corporate Finance (5th edition) by Jonathan Berk, Peter De-Marzo ISBN: 9780135161081. I encourage you to buy an e-text which is immediately available through the publisher's website. UofT bookstore should also be able to sell you the Access Code to the e-text.

Slides will be available on the website.

## **Assessment and Grade Composition**

- Final Exam 45%
- Midterm Exam 35%
- Attendance 15%
- Participation in Quercus discussions 5%
- Quizzes 0%

## **Exam Policies**

All exams will be closed book and closed notes. You may only bring pens, pencils, erasers, and a calculator. Exam content will be based on the material covered in class and tutorials.

Midterm and final exam dates will be posted later in the semester.

The exams must be taken at their scheduled times, unless you have a verifiable family or medical emergency. If you attempt to falsify an excuse, you will receive a zero for the exam. If you are caught cheating on an exam, you will receive a score of zero for the exam.

*Missing a Midterm:* The Midterms are compulsory. Missing a midterm requires a legitimate medical excuse and the following of a specific protocol; details of the protocol and the make-up procedure are outlined in Appendix of this syllabus. If you miss the midterm for a legitimate reason, the final exam will account for 80% of the grade. You are strongly discouraged to do so, because final exam will cover all the material in the course.

The final exam will be held at a date and location to be set by the University. The final exam will include all the material covered in the course.

Note that for the protection of all students, the instructor retains photocopies of tests and assignments. If you appeal to re-grade one of the exam questions, another TA will re-grade the entire exam. Note that this may lead to a lower overall grade. Your complaint has to be in writing and justify in detail why you think that you deserve a higher mark. Incomplete requests will not be considered. You have up to one week from the date of return of the item to inquire about the mark.

## **Attendance and Quizzes**

Quizzes are held during the lectures. Quizzes are not graded and are used to keep track of attendance. I will use questions from quizzes in midterms and exams so you have incentives to study them.

You are encouraged to post questions about the material covered and respond to questions of your classmates on Quercus discussion board. TAs will keep track of questions and respond to questions that are not answered by other students. *Students who are in top 20% of students by either questions submitted or questions asked will get maximal bonus points for “Participation in Quercus discussions.” Students who make at least 8 qualifying responses or questions, or are in top 50% of students by either questions submitted or questions asked will get half of maximal bonus points for “Participation in Quercus discussions.”* Note that only thoughtful questions and responses will be counted. Short and meaningless questions and responses will be ignored and might be penalised.

## **TA Support**

Your TAs will hold office hours starting from the second week. Review sessions and office hours will be held before the midterms and finals. They would grade exams and respond to questions on the Quercus System and Emails. They will also hold office hours after the midterm to address any questions regarding the grading of the midterm. An announcement will be made on the portal to inform you of the time and venue of such office hours.

## **Email Communication**

I will use Quercus to send out messages and it is your responsibility that your account is set up to receive messages from the UofT portal.

When having a question about the course, you should first post it on the Quercus discussion board or ask your classmates. The most efficient way to learn is to come to the answer yourself with the help of your classmate. If you still have questions after discussing it on Quercus, you should ask TAs or me during office hours.

*I will reserve e-mails for handling organisational questions only!* E-mail queries about class material that require lengthy answers will be ignored or receive the following answer: “Please see me during office hours.” When sending an e-mail please use your University of Toronto e-mail address. Also, please mention the course code ECO359 in the subject line of your message.

TAs will announce their email policy through Quercus system.

## **Webpage**

The webpage for this course is on the Quercus system. Any materials not handed out in class are posted on the site. You should check the website daily, and it should be the first place you want to look for course related information, or if you have questions regarding assignments.

## **Tentative Schedule**

- Lecture 1: Introduction to Corporate Finance
- Lecture 2: Cost of Capital
- Lecture 3: Project Evaluation
- Lecture 4: Capital Structure in a Perfect Market
- Lecture 5: Tax Benefits of Debt
- Midterm
- Reading Week
- Lecture 6: Capital Structure with Market Frictions
- Lecture 7: Valuation of Options
- Lecture 8: Topics in Corporate Finance
- Lecture 9: Topics in Corporate Finance
- Lecture 10: Topics in Corporate Finance
- Lecture 11: Review Session

## **Appendix A: Policy on missing a Midterm**

1. A student who does not feel able to write a test because of severe domestic affliction or other cause not related to his or her health should, unless the circumstances make this impossible, contact the instructor before the test. The instructor will always ask for adequate proof of the circumstances. If the student fails to contact the instructor before the test but, in the opinion of the instructor, could have, or if the student fails to provide adequate proof, then he or she will get zero for the test.
2. If you are sick you must contact me before the time of the exam. If you do not contact me before the exam, generally no medical note will be accepted, unless there were extraordinary circumstances (e.g., you were hospitalized and unconscious). Contact Option: By email; write to both me and at least one TA.
3. You must provide a fully completed University of Toronto Medical Certificate, completed by a qualified medical doctor (e.g., not an acupuncturist, chiropractor, or other health care professional). The doctor's OHIP registration number must be provided and the doctor must indicate a phone number at which she/he can be reached. The note must be original (not scanned, copied, or emailed), and must be presented in person with a valid U of T student card within three (3) business days of missing the test. Beyond three (3) business days from the test date, further documentation of continued illness or disability will be required from a physician. Please also complete the online special request application within 24 hours of the missed test.
4. You must see the doctor on the day of the exam or the next-I will not accept sick notes that are based on the doctor's best guess of what happened to you in the past. A statement from a physician that merely confirms a report of illness and/or disability made by the student is not acceptable. Documentation citing non-essential, preplanned medical procedures will not be acceptable. Sports injuries incurred within the last two days before the test are not considered to be valid excuses.
5. Provide a typed list of the other courses that you are taking, dates for tests and assignment due dates and the course instructor's contact information. The general rule is that if you are too ill to write an exam in my course, you will be unable to write exams or work on assignment in other courses. If you wrote a test in another course or show up in class in

another course on the day of the midterm, your medical note will automatically be discarded. Using a fake medical note is a very serious academic offence. The case would be reported and further pursued by the university.

6. If I approve your medical or other reasons, the 35% weight of the midterm will be shifted to the final exam.

## **Appendix B**

### **- Prerequisites**

See the Academic Calendar for prerequisites and exclusions. Prerequisites are strictly checked and enforced and must be completed before taking a course. By taking this course you acknowledge that you will be removed from the course at any time if you do not meet all requirements set by the Department of Economics.

### **-Academic Misconduct**

Copying, plagiarizing, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero on the assignment, test or examination to dismissal from the university as outlined in the academic calendar. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties. As a student it is your responsibility to ensure the integrity of your work and to understand what constitutes an academic offence. If you have any concerns that you may be crossing the line, always ask your instructor. Your instructor can explain, for example, the nuances of plagiarism and how to use secondary sources appropriately; he or she will also tell you what kinds of aids – calculators, dictionaries, etc. – are permitted in a test or exam. Ignorance of the rules does not excuse cheating or plagiarism. For more information regarding the Code of Behaviour please see the Academic Calendar.

### **-Turnitin**

Students agree that by taking this course all required papers may be subject to submission for textual similarity review to Turnitin.com for the detection of plagiarism. All submitted papers will be included as source

documents in the Turnitin.com reference database solely for the purpose of detecting plagiarism of such papers. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site. If you refuse to use Turnitin.com you must make alternative arrangements with me in advance.