

ECO359H1S
Financial Economics II
Section L0101
University of Toronto
Department of Economics

Course Location and Time: SS2108, Tuesdays 14:00-16:00.
Instructor: Ling Sun
Office Location: Economics Department, Max Gluskin House, Room 229
Email Address: ling.sun@utoronto.ca
Office Hours: Tuesdays 12:00-14:00 or by appointment
Website: Blackboard

Prerequisite: ECO358H

Exclusion: ACT349H1, MGT331Y1, 337Y1, RSM332H, 333H

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 anytime if you do not meet all requirements set by the Department of Economics. For further information you can consult the University of Toronto Faculty of Arts and Science 2010-2011 Academic Calendar, which is available from the Registrars' Office.

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 — I leave this for your securities courses. The course focuses mainly on theoretical issues, but naturally we also want apply the ideas to understand some real-world examples.

Textbooks and Other References

The main textbook for the course is *Corporate Finance, 5th Canadian Edition* by Ross, Westerfield, Jaffe, and Roberts (2008, McGraw-Hill Ryerson, hereafter referred to as RWJR). Students who purchase this book will have access to an on-line learning centre maintained to supplement it. Another helpful textbook is *Financial Theory and Corporate Policy, 4th Edition* by Copeland, Weston and Shastri (2005, Pearson Addison Wesley, hereafter referred to as CWS). If you would like to have a look at a more advanced text, check *the Theory of Corporate Finance* by Jean Tirole (2006, Princeton University Press). This is a great textbook; it covers much more than this course, but some topics that are covered, are covered very nicely.

Exams

There are one midterm test and a final exam. The midterm test is two-hour long and will be written during class on **Feb 15th, 2011**. The final exam is a three-hour exam.

Grade Composition

Your course-grade is composed as follows:

$$40\% \times \text{Min \{midterm, final\}} + 60\% \times \text{Max \{midterm, final\}}$$

If your midterm is better than your final, then the midterm counts 60% and the final counts 40%. Otherwise, the midterm counts 40% and the final counts 60%.

Procedures and Rules

Missing the Midterm. The Midterm is compulsory. If you miss the midterm, and if you have a legitimate medical excuse as outlined in the university policies, you have the option to write a makeup midterm during the week of March 1st, 2010.

As of September 2010, students will be required to declare their absence on ROSI in order to receive academic accommodation for any course work such as missed tests, late assignments, and final examinations. In addition to the absence declaration, students must follow the specific department's or instructor's policy for requesting special consideration.

In the event a student misses midterm test due to illness or domestic tragedy, the student must submit a doctor's note or the university's official "Student Medical Certificate" (available online at <http://www.healthservice.utoronto.ca/pdfs/medcert.htm>) indicating the type of illness and date of illness (or other applicable documentation for domestic situation) within *48 hours of the test date*.

Students are reminded that ALL students who miss a test for medical reasons MUST complete the Absence Declaration on ROSI to record your absence.

Re-grading. If you appeal to re-grade one or more questions on the midterm test, you should request in writing and outline in detail why you think that you deserve a higher mark. Your TA will re-grade the entire problem set/exam. Note that this may lead to a lower overall grade.

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. 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). I will not answer emails in the last 36 hours before a

test. Please note that some email servers (such as hotmail) can be 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. Each email message must include in the “subject” the course number (ECO359H1S) 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 your full name and your student number in your message.

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. I will not explain concepts or the like via email, no matter the circumstances.

TA Support. Our teaching assistant for the course is Michael Brolley (michael.brolley@utoronto.ca). He will hold review sessions and office hours. Times are to be announced on the course webpage.

Tentative Course Structure

Week 1: (January 11) Introduction, basic investments.

Week 2: (January 18) Basics of accounting and balance sheet analysis, NPV and other investment valuation tools.

Week 3: (January 25) Basics of real options.

Week 4: (February 1) Fisher separation theorem.

Week 5: (February 8) Capital budgeting under uncertainty.

Week 6: (February 15) Midterm.

Reading week.

Week 7: (March 1) Long-term financing.

Week 8: (March 8) Modigliani-Miller: Capital structure.

Week 9: (March 15) Modigliani-Miller and dividend policy, an overview of agency cost.

Week 10: (March 22) Background on Air Canada's restructuring; underinvestment: the debt-overhang problem.

Week 11: (March 29) Mergers and acquisitions.

Week 12: (April 5) Initial public offerings: Overview and popular models.