

**University of Toronto
Department of Economics 2010**

**ECO352H1F
ECONOMICS OF ENTREPRENEURSHIP**

**Friday - 2:00 to 4:00pm
Bahen Centre for Information Technology, Room BA3008**

Instructor: Reza Satchu
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Office Hours: TBD

Teaching Assistant: TBD

Course Description

This course focuses on the challenging and important economic issues associated with recognizing, growing and valuing new ventures. The course explores the analytical techniques needed to recognize emerging business opportunities; understand the various financing choices; apply valuation methodologies; develop a marketable business plan; manage growth in a rapidly evolving environment; and successfully monetize the value of a business. Key topics include financial forecasting, valuation, venture capital financing and initial public offerings. Students will develop a framework within which to analyze whether a business idea is worth pursuing and a methodology to enable them to apply financial economic principles in ways that add to the value of an entrepreneurial undertaking.

Required Readings

- **Case Book:** A case book will be distributed.
- **Reading List:** A reading packet will be distributed.

Marking Scheme

Mid Term Test	20%
Participation	25%
Business Plan	25%
Final Exam	30%

- **Mid Term Test** – Held on Friday, October 22nd during class.
- **Participation** - Participation is encouraged and a critical part of the learning experience.
- **Business Plan** – 10 pages in length and due by Friday, December 3rd.
- **Final Exam** – Held during the exam period and will draw on all the material covered in the course.

Speakers

Several distinguished business leaders will be invited to share their experiences. This will provide students with the opportunity to interact with successful entrepreneurs and those who finance them. A practical understanding of each module will be substantially enhanced by discussions with these entrepreneurs.

Course Outline

Part I: Introduction

- Topics:
 - Economics of Entrepreneurship
 - Overview of New Venture Financing
- Required Readings:
 - Reading List: A1, A2, A3, A4 and A5
 - Case Studies: To be determined

Part II: Financial Aspects of Strategic and Business Planning

- Topics:
 - The Business Plan
 - New Venture Strategy
- Required Readings:
 - Reading List: B1, B2 and B3
 - Case Studies: To be determined

Part III: Financial Forecasting

- Topics:
 - Financial Statements and Pro Forma Models
 - The Cash Flow Cycle
 - Assessing Financial Needs and Sustainable Growth
- Required Readings:
 - Reading List: C1 and C2
 - Case Studies: To be determined

Part IV: Valuation

- Topics:
 - New Venture Valuation
 - Alternative Valuation Methodologies
 - Cost of Capital and Required Rates of Return
- Required Readings:
 - Reading List: D1 and D2
 - Case Studies: To be determined

Part V: Financing

- Topics:
 - Financing Alternatives
 - Private Equity
 - Strategic Alliances
 - Fundraising Strategies

- Required Readings:
 - Reading List: E1, E2, E3, E4 and E5
 - Case Studies: To be determined

Part VI: Harvesting

- Topics:
 - The Harvesting Decision
 - Initial Public Offerings
 - Mergers and Acquisitions

- Required Readings:
 - Reading List: F1
 - Case Studies: To be determined

Part VII: Conclusion

- Topics:
 - Renewal in the Entrepreneurial Firm
 - The Future of Entrepreneurial Finance

- Required Readings:
 - Case Studies: To be determined

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Reading List

A. Entrepreneurship

1. The Heart of Entrepreneurship
2. The Questions Every Entrepreneur Must Answer
3. Natural Born Entrepreneur
4. The Top Ten Lies of Entrepreneurs
5. The Dark Side of Entrepreneurship

B. Business Plan

1. Writing a Business Plan: The Basics
2. How to Write A Great Business Plan
3. Why Business Models Matter

C. Financial Statement Analysis

1. Introduction to Financial Ratios and Financial Statement Analysis
2. Financial Statements: The Elements of Managerial Finance

D. Valuation

1. Valuation in Entrepreneurial Ventures
2. Valuing Private Businesses

E. Financing

1. Angel Financing
2. Venture Capital Industry
3. Private Equity Securities
4. Hedge Fund Industry
5. Strategic Alliances

F. Harvesting

1. The Initial Public Offering Process

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Case Book

1. Amazon.com – Going Public
2. Beta Golf
3. CROCS
4. Crunch
5. Dell Computer
6. Facebook
7. Honest Tea
8. Learning Company
9. Nantucket Nectars
10. Netscape
11. Parenting Magazine
12. Starbucks

Supplemental Readings

Students may find the following textbooks of interest.

General Reference

Janet K. Smith and Richard L. Smith, *Entrepreneurial Finance (2nd ed.)*, (Hoboken, NJ: John Wiley & Sons, Inc., 2004)

Richard A. Brealey and Stewart C. Myers, *Principles of Corporate Finance (6th ed.)*, (New York: McGraw-Hill, 2000).

Valuation References

Aswath Damodaran, *Damodaran on Valuation*, (New York: John Wiley & Sons, 1994).

Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweihs, *Valuing a Business: The Analysis and Appraisal of Closely Held Companies (4th ed.)*, (Burr Ridge, IL: Richard D. Irwin, 2000).

Venture Capital References

Joseph W. Bartlett, *Equity Finance: Venture Capital, Buyouts, Restructurings, and Reorganizations (2nd ed.)*, (Frederick, MD: Panel division of Aspen Law & Business, 1995).+

Paul A. Gompers and Josh Lerner, *The Money of Invention: How Venture Capital Creates New Wealth*, (Boston, MA: Harvard Business School Press, 2001).

Jack S. Levin, *Structuring Venture Capital, Private Equity, and Entrepreneurial Transactions*, (Frederick, MD: Panel division of Aspen Law & Business, 2000).