

FINA 4200: Corporate Finance Theory
Syllabus*
FALL 2007, TR (08071)

Instructor Contact Information

Prof. Steve Ahn (steveahn@uga.edu)
Office: TBD / by appointment
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Class Time & Place

Tue & Thur evenings, 6:30 – 7:45
Gwinnett University Center
Class Room A-1300

Course Objectives & Learning Outcomes: This course provides students with a foundation in the modern theory of corporate finance. The focus will be on the development of several key concepts that are useful for understanding a broad range of major corporate finance decisions. The topics include market efficiency, financial markets and financial instruments, the goals and conflicts among different stakeholders in the firm, tradeoffs in the choice of an optimal capital structure, determinants of optimal investment and payout policy, information and bargaining problems associated with financing new investments and resolving financial distress, and the role of financing and investment in corporate strategy.

Prerequisites: The course prerequisites are FINA 3000 and MS 3000 or STAT 3000. Students are expected to understand concepts such as variance and covariance calculations, discounted cash flow analysis, and the basic risk return relationship in finance. Basic economic and accounting knowledge will also be helpful.

As this course focuses on theory, no directly quantitative subjects will be covered as they should already have been learned via the prerequisites. A calculator is recommended but not required for the course.

Required Materials: All required readings will be available for your review and study (and printing if you choose to do so) online via WebCT. A summary of the required articles for reading is included at the end of this syllabus. Other handouts will also be made available by the instructor as the course progresses.

Supplemental reading: A text is not required but is a good reference for technical and theoretical content. Any prior text for FINA 3000 will suffice. Students are also expected to keep informed of topical current business events by reading general business resources such as the *Wall Street Journal* or *BusinessWeek* magazine.

* The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

Grading: The grade a student earns is based on the higher of Weighting 1 or 2 as follows:

	<u>Weighting 1</u>	or	<u>Weighting 2</u>
Participation	10%		30%
Question set average	20%		20%
Midterm	25%		20%
<u>Final Exam (cumulative)</u>	<u>45%</u>		<u>30%</u>
Base Grade	100%		100%

The final course grade is the base grade plus any points earned from quizzes, participation, and the project described below. Final course grades are tabulated without manipulation (e.g. rounding or curving, up or down) and are determined by the following letter grade thresholds:

≥ 92.5 is A	≥ 87.5 is B+	≥ 77.5 is C+	≥ 60 is D
≥ 90.0 is A-	≥ 82.5 is B	≥ 72.5 is C	< 60 is F
	≥ 80.0 is B-	≥ 70.0 is C-	

Grading disputes (other than for errors) will be resolved with a complete re-grading of the entire item to arrive at the final higher/lower/same grade.

Question Sets will last approximately 10 – 15 minutes and be done at the beginning of selected classes. There is a question set for each assigned article, totaling 13. The question sets will be open-“book” and cover basic subject matter for the assigned class or subject matter which was recently covered. Missed question sets cannot be made up for any reason and will be scored as a zero. The three question sets with the lowest scores will be dropped before calculation of the average.

Tests and exams will be closed-book, closed-notes and will primarily consist of multiple choice and short answer questions. Calculators, though not required will be allowed. The instructor may prohibit any device, such as a cell phone calculator, which he deems inappropriate. It is the student’s responsibility to check with the instructor about the permissibility of a device and to obtain an acceptable one.

Pop quizzes: The instructor may administer a quiz at any time. Quizzes are typically applications of course concepts in the current business environment. The numeric score (usually between 0 and 2) on each quiz will represent the number of points, if any, to be added to the base grade. Pop quizzes cannot be made up.

Class participation: Questions and comments are encouraged and should be specific, analytical, and not readily answerable from a cursory reading of the assignments. Cold-calling as described in class will be used; however, when called upon, if he/she feels unprepared to participate, the student may “pass” with the understanding that such action will be reflected in the participation grade. Consistent meaningful participation can also result in up to 4 additional points to the final grade. Consistent participation is not possible without consistent attendance. Any comment or behavior which the instructor deems is disrespectful or detrimental to the class environment will not be tolerated.

Attendance: Attendance is required but not graded. An attendance sheet will be circulated during each class. It is the student's responsibility when present to sign the sheet. Lack of attendance will never have a negative impact on grade except in the case of an unexcused absence from a test or the final exam. Specifically: (i) students must inform the instructor in advance of a potential absence for a test or the final exam; (ii) no excuse will be considered without relevant documentation as applicable; (iii) any absence not due to a compelling reason beyond the control of the student as determined by the instructor will be treated as an unexcused absence. Any work including exams cannot be made-up for unexcused absences and will result in a zero score for such work.

Homework: Students are required to complete all homework, which will consist of (i) familiarization of assigned readings prior to class, (ii) review of previous lecture content, (iii) preparation of questions based on such review, and (iv) preparation for in-class discussion of the topic outline for each session. Though students are not required to completely understand the full content of articles prior to class, lectures will emphasize interpretation and application rather than initial introduction of subject-matter. As a guide, students should skim articles within 30 – 45 minutes. Homework will not be graded but students are encouraged to turn it in when applicable.

Honor Code: All students are expected to abide by the University Honor Code. ANY violation will be reported to the Office of Academic Affairs. Furthermore, all academic work must meet the standards contained in "A Culture of Honesty." Students are responsible for informing themselves about those standards before performing any academic work.

Course Outline:

Dates	Article	Primary Topic(s)	
Aug	16	1, 2	Corporate finance perspective, five theoretical building blocks
	21	1, 2	Capital budgeting, capital structure
	23	1, 2	Capital structure (cont'd), CAPM, market efficiency, dividend policy
	28	3	Valuation factors: market efficiency, dividends, and leverage
	30	3	Valuation factors: inflation and taxes
Sep	4	3	Valuation factors: portfolio allocation
	6	4	Theoretical logic of the CAPM
	11	4	Testing deviations of CAPM; the market proxy problem
	13	5	Diversification, modern portfolio theory
	18	5	Modern portfolio theory (cont'd)
	20	6	Agency theory, costs, controls; three key theoretical questions
	25	6	Three theoretical questions (cont'd); agency costs in different firms
	27	7	Executive compensation and the agency problem
Oct	2	7	Compensation policies and evaluation; scoring models
	4	MIDTERM	Articles 1 – 7
	9	8	Optimal financial leverage (capital structure revisited)
	11	8	Optimal financial leverage (cont'd)
	16	8, 9	Optimal financial leverage (cont'd); “Dividend puzzle” theory
	18	9	“Dividend puzzle” theory (cont'd)
	23	10	Financing decisions and valuation
	25	--	No class - Fall Break
	30	10	Should shareholders care about financing decisions?
Nov	1	11	The effect of financial distress on corporate governance
	6	11	Option theory to value stakeholder claims
	8	12	Solving financial distress – a theoretical evaluation of methods
	13	12	Solving financial distress (cont'd)
	15	13	Takeover theory: returns to bidders, targets, shareholders, management
	20	13	Case study - Takeover theory
	22	--	No class - Thanksgiving Break
	27	Case study 1	Theory v. practice
	29	Case study 2	Theory v. practice
Dec	4	--	No class – “The University shall operate a Friday class schedule”
	6	Case study 3	Theory v. practice; student-led exam review
	TBD	All	CUMULATIVE EXAM; date, time, place to be announced

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About the instructor: Steven Ahn is a Partner of AbacusTD LLC, a corporate finance consulting firm and has over 15 years experience as an investment banker, consultant, and educator. As an educator, Mr. Ahn has taught MBAs at the Univ. of TX and Pepperdine Univ. and undergraduates at Emory Univ. and California State Univ. Mr. Ahn’s courses include Investments, Corporate Finance, International Finance, Mergers & Acquisitions, Venture Capital, Financial Modeling, Entrepreneurial Finance, Financial Theory, Capital Markets, and International Accounting. Mr. Ahn has also conducted training for four FORTUNE 500 firms as well as for NASD and SEC securities licensees. He is an editorial reviewer for publisher McGraw-Hill and the author of Modern Global Cash Management (second edition 1996, 402 pg). Mr. Ahn earned his MBA from the Wharton School (Univ. of PA) and his BA from Emory Univ. jointly with London Guildhall Univ. and Yonsei Univ. – Seoul.

**FINA 4200 - Corporate Finance Theory
Required Readings**

Topics per Syllabus & Course Description

#	Article	Author	Pgs	Market efficiency	Financial Markets & Instruments	Goals / Conflicts Among Stakeholders	Optimal Capital Structure	Investment / Dividend Policy	Problems in Financing New Investments	Resolving Financial Distress	Financing & Investment Roles in Corporate Strategy
1	The Theory of Corporate Finance	Smith	30	x	x	x	x	x	x	x	x
2	Market Efficiency	Markowitz	15	x							
3	Debt, Dividend Policy, Taxes, Inflation, Market Valuation	Modigliani	19	x			x	x	x		
4	Capital Asset Pricing Model	Fama	35	x	x		x	x	x		
5	Markowitz's "Portfolio Selection"	Rubinstein	5		x			x			x
6	Comparing the Agency Costs of Family and Non-family firms	Chrisman	21			x					
7	Fair or Excessive: Executive Compensation	Jensen	9			x					
8	Optimal Financial Leverage	Kraus	12				x				
9	What is the Puzzle in the "Dividend Puzzle"?	Frankfurter	11					x			
10	Effects of a Firm's Investment & Financing Decisions on the Welfare of its Security Holders	Fama	14						x		x
11	Corporate Governance & Financial Distress	Mumford	13							x	
12	How to Detect & Solve a Company's Financial Distress	Kogan	3							x	
13	The Market for Corporate Control	Jarrell	21								x
Totals			208	4	3	3	4	5	4	3	4

(Articles per topic)