

COURSE SYLLABUS

UNIVERSITY OF REGINA
PAUL J. HILL SCHOOL OF BUSINESS - FACULTY OF BUSINESS ADMINISTRATION
BUS 395-001

FINANCE: THEORY AND APPLICATION

January 5 – April 12, 2017 (winter) CLASSROOM: ED 193; HRS: 8:30 am –9:45 am (TR)

INSTRUCTOR: Dr. Arturo Rubalcava
OFFICE: Ed 565.5
PHONE: 337-2388
OFFICE HOURS: Wednesdays 1:00 pm. – 3:00 pm.

Note: If these scheduled times are not convenient for you, I will certainly attempt to accommodate you at other times, providing you make an appointment in advance.

PREREQUISITE: BUS 290

TEXT BOOKS: 1. **Textbook:** Ross, S., R. Westerfield, J. Jaffe, and G. Roberts. Corporate Finance (7th Canadian Edition, McGraw-Hill Ryerson, 2015).

Additional Material: References to relevant course websites, articles, class notes, and assignments will be posted on *UR Courses*.

CALENDAR DESCRIPTION

The course examines the way in which corporate managers make financial decisions to maximize firm's value. Theoretical models and its applications are discussed. Topics include asset pricing, market efficiency, capital structure, cost of capital, and dividend policy.

TEACHING METHODS

Because of the size of the class, course material will be presented in primarily a lecture format. The lectures will concentrate on developing the key concepts and providing real-world applications. However, class participation is strongly encouraged. Feel free to ask questions and/or raise discussion points during the lectures.

Always study the relevant text chapters before you come to class. Quizzes will be given at the beginning of the class and **will be based on material that you read *in advance*** to the topic to be presented. These quizzes correspond to basic concepts and main ideas of the material to be covered. Reading in advance will help answer questions during class, should I direct one your way. **No make-up quizzes will be given for any reason.**

The topics to be covered are sequentially interrelated. It is very important you make the effort to grasp the basic concepts from the beginning chapters of your course outline since these concepts are needed to understand subsequent topics as the semester advances.

Students are also strongly encouraged to keep current on financial and business news. The *Globe and Mail* and the *National Post* are two excellent sources for such information, and students should get in the habit of reading at least one of these newspapers daily.

EVALUATION

- 2 Midterm Exams (30% weighting for your highest score, and 20% for your lowest score) 50 %
- 1 Final Exam 40 %
- Quizzes: Approximately 10. Five questions each quiz: Multiple choice and/or true and false type of questions. **No** make-up quizzes. I'll consider only the best 8 scores. 10%
- Total 100%

Midterm Exams:

The midterm exams will be written on:

- Thursday, February 16, 2017 (1¼ hrs.)
- Thursday, March 30, 2017 (1¼ hrs.)

The first midterm will relate to course material covered up to that point. The second midterm will relate to course material covered between the first and second midterms. The *approximate* midterm exam format consists of three parts. Part I: True/False questions (20%), Part II: Multiple choice questions (30%) and Part III: open questions, qualitative and/or quantitative (50%): **Note:** In Part III, for quantitative problems you must show procedure to get marks. If you only provide the final answer, even if it is correct, **no** points will be granted. Check on *UR Courses* the folders, which contain samples of previous midterm exams and assignment questions. Formulas to answer the exams will be provided if needed.

Two to four assignments are scheduled during the semester. They are mostly quantitative problems and will help to understand better the different topics examined in class. Databases such as CRSP (Centre for Research in Security Prices) and/or Compustat will be used for some of these assignments. Each assignment counts as a bonus and will count one percent, which will be added to the final score.

Final Exam:

The final exam will be written on:

- Monday, April 17, 2017 (7 pm - 10 pm; Classroom TBA)

The final exam is **comprehensive** in nature, meaning that it covers material from the **entire** course. The exam format is similar to the first and second midterm tests.

NOTE: For all exams bring a calculator. Sharing your calculator with your classmates during exams is not allowed. The calculator should have at least the following functions: \ln , exponential e^x , X^Y , and $1/X$ in case you need them.

STUDENT RESPONSIBILITIES

1. Every effort should be made by you to ensure you write the *midterm exams during their scheduled times*. If a situation arises that makes it absolutely impossible for you to do this, you must let me know in advance (preferably as far in advance as possible).

In the case of illness, **you must provide me with a physician's certificate** clearly stating that the illness prevented you from being able to write the exam.

If you must miss a midterm due to illness or other extenuating circumstance, **no make-up exam** will be given. Instead, the **20% weight of the midterm** will be transferred to the final exam (i.e., 60%).

However, this weight transfer will not happen automatically. I will only transfer the weight if you provide me with a written request to do so (i.e. if you do not write a midterm, and do not provide me with a written request to transfer the weight of the midterm to the final, you will automatically receive a grade of zero on the midterm). This written request must explain the reason why you are unable to write the midterm, and must state that you wish to transfer the weight of the midterm to your final.

I will submit your written request and/or medical attestation to the Records Management of the Faculty of Business Administration at the end of the semester.

2. Every effort should be made to ensure you are available to write the Final Exam during its scheduled time. If you are absolutely unable to write the Final during its scheduled time, you must see the general office in the faculty in which you are enrolled and formally request a deferred exam. **Deferred exams**

will only be granted in cases of exceptional circumstances (i.e. serious illness of the student, compassionate family reasons, etc.).

Deferred exams will **not** be granted for any factors that are within the control of the student - i.e. travel plans, work conflicts, timetabling conflicts with exams in other courses, etc. Please adjust your schedule accordingly.

3. Regular class attendance is expected. If you must miss a class, it is your responsibility to get notes, assignments, etc., from a classmate.
4. Familiarize yourself with the University's general **Academic Regulations** as explained in the 2016-2017 Undergraduate Calendar, particularly those that pertain to **Student Behaviour** (Section 5.14, subsections 5.14.1 to 5.14.5). (See <http://www.uregina.ca/student/registrar/publications/undergraduate-calendar/current.html>). (Pages 44-47).

The Faculty of Business Administration has included in the Undergraduate Calendar a statement in section 10.5.4 as follows:

Students enrolled in Business courses at the University of Regina are expected to adhere rigorously to principles of intellectual integrity. Plagiarism is a form of intellectual dishonesty in which another person's work is presented as one's own. Plagiarism or cheating on examinations/assignments is a serious offence that may result in a zero grade on an assignment, a failing grade in a course, or expulsion from the University.

(See

http://www.uregina.ca/gencal/ugcal/facultyofBusinessAdministration/ugcal_234.shtml#academicMisconduct) (Page 138).

5. If there is any student in this course who, because of a **disability**, may have a need for accommodations, please come and discuss this with me, as well as contacting the Centre for Student Accessibility at 306-585-4631. (See <http://www.uregina.ca/student/accessibility/>).
6. Communicating with me regarding any course-related matters (questions concerning the material, coverage of exams, etc.) must be done either:
 - by person (i.e. during my scheduled office hours, or by making an appointment),
 - by telephone, or
 - by email through *UR Courses*.
7. If you want to talk to me outside of class-time, please *plan-ahead*. Either make use of my scheduled office hours, or make an appointment to see me. Last- minute (ex. just before an exam) requests by students to talk to me cannot always be met, so planning-ahead is important.

SCHEDULE OF TOPICS

PART I - RISK

		Chapter
Jan 5-10	- Introduction	10
Jan 12-31	- Return and Risk: The CAPM	11
Feb 2-9	- Risk Return and Capital Budgeting	13
	• Determinants of Beta	
	• Cost of Capital With and Without Leverage	

PART II – CAPITAL STRUCTURE

Feb 14	- Market Efficiency: <ul style="list-style-type: none">• Weak-form; Semi-strong, Strong-form• Empirical Evidence	14
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➔ Feb 16 (Th) – 1st MIDTERM EXAM

➔ Feb 20-25 Mid-term Break 😊

Feb 26	- Market Efficiency (Cont'd)	
March 2-21	- Capital Structure: Basic concepts <ul style="list-style-type: none">• Financial Leverage and Firm Value: Does capital structure matter?<ul style="list-style-type: none">○ Modigliani and Miller Proposition #1. Irrelevance: No taxes○ Modigliani and Miller Proposition #2. Relevance: Taxes○ Applications	16
March 23-28	- Capital Structure: Limits to the use of Debt <ul style="list-style-type: none">• Costs of financial distress<ul style="list-style-type: none">○ Direct○ Indirect: Agency Costs.<ul style="list-style-type: none">1) Incentives to take larger risk 2) Under investing, 3) Milking.• Pecking Order Theory• Empirical Evidence on Capital Structure	17

➔ March 30 (Th) - 2nd MIDTERM EXAM

PART III - DIVIDEND POLICY

April 4	-Types of dividends: Cash, Stock dividends, Share repurchase <ul style="list-style-type: none">• Modigliani and Miller: Dividend policy without and with taxes• Empirical Evidence	19
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PART IV - INTRODUCTION TO DERIVATIVES (Options)

Apr 6-11	- Options and Corporate Finance: Basic Concepts	23
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➔ April 17 (M) - FINAL EXAM: Comprehensive. It includes all material covered during the term.

Note: The above schedule is *approximate* only. I reserve the right to change the above schedule. I'll notify you in advance if any change needs to be made.