UNIVERSITY OF REGINA
PAUL J. HILL SCHOOL OF BUSINESS - FACULTY OF BUSINESS ADMINISTRATION
BUS 395-002
FINANCE: THEORY AND APPLICATION

January 8 – April 11, 2019 (winter)  Classroom: ED 623; Hrs: 10:00 am –11:15 am (TR)

INSTRUCTOR:  Dr. Arturo Rubalcava
OFFICE:  ED 565.5
PHONE:  (306) 337-2388
OFFICE HOURS:  Thursdays 2:30 pm – 4:00 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


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  50 %
  (30% weighting for your highest score, and 20% for your lowest score)
- 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:
  •  Tuesday, February 12, 2019 (1¼ hrs.)
  •  Tuesday, March 26, 2019 (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 (Center for Research in Security Prices) and/or Compustat may 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:
- Saturday, April 27, 2019 (2 pm - 5 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^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 2018-2019 Undergraduate Calendar, particularly those that pertain to Academic Misconduct (pages 40 and 41). (See https://www.uregina.ca/student/registrar/resources-for-students/academic-calendars-and-schedule/undergraduate-calander/index.html)

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.* (Page 141).

(See https://www.uregina.ca/student/registrar/resources-for-students/academic-calendars-and-schedule/undergraduate-calender/index.html)

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.

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**Faculty of Business Administration Participant Pool:**

Students can earn up to 2 marks for participating in research projects. These marks will be added to your final grade as long as you have passed the final exam AND passed the class. Research marks will **NOT be considered if a student has not passed the final exam or class on his or her own work.**

The Participant Pool provides students with the opportunity to participate in research studies to earn bonus credits that they can allocate toward eligible business classes (to a maximum of 2% per class).

For more information about our participant pool and to sign up for the studies, please visit the faculty website at https://www.uregina.ca/business/ and then find Pool of Research Participants under Quick Links. From there go to Sona Systems.

**SCHEDULE OF TOPICS**

**PART I - RISK**

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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapter</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Jan 8</td>
<td>- Introduction</td>
<td></td>
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<td>Jan 10-17</td>
<td>- Return and Risk: The CAPM</td>
<td>11</td>
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<td>Jan 22-29</td>
<td>- Risk Return and Capital Budgeting</td>
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<td></td>
<td>• Determinants of Beta</td>
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- Cost of Capital With and Without Leverage

**PART II – CAPITAL STRUCTURE**

Jan 29-31 - Market Efficiency: 14
  - Weak-form; Semi-strong, Strong-form
  - Empirical Evidence

Feb 5 - 7 - Capital Structure: Basic concepts 16
  - Financial Leverage and Firm Value: Does capital structure matter?
    - Modigliani and Miller Proposition #1. Irrelevance: No taxes
    - Modigliani and Miller Proposition #2. Relevance: Taxes
    - Applications

**-Feb 12 (T) – 1st MIDTERM EXAM**

Feb 14 - Capital Structure: Basic concepts (Cont’d)

**-Feb 18-24 Mid-term Break 😊**

Feb 26-28 - Capital Structure: Basic concepts (Cont’d)

March 5-7 - Capital Structure: Limits to the use of Debt 17
  - Costs of financial distress
    - Direct
    - Indirect: Agency Costs.
    1) Incentives to take larger risk 2) Under investing, 3) Milking.
  - Empirical Evidence on Capital Structure

**PART III - DIVIDEND POLICY**

March 12 - Types of dividends: Cash, Stock dividends, Share repurchase 19
  - Modigliani and Miller: Dividend policy without and with taxes
  - Empirical Evidence

**PART IV - LONG TERM FINANCING**

March 14-21 - Leasing 22

**- March 26 (T) - 2nd MIDTERM EXAM**

**PART V - INTRODUCTION TO DERIVATIVES (Options)**
March 28 – Apr 2 - Options and Corporate Finance: Basic Concepts 23

**PART VI - FINANCIAL PLANNING AND SHORT TERM FINANCE**

April 4 – 11 - Short term finance and Planning 27

**- April 27 (Sat) - 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.