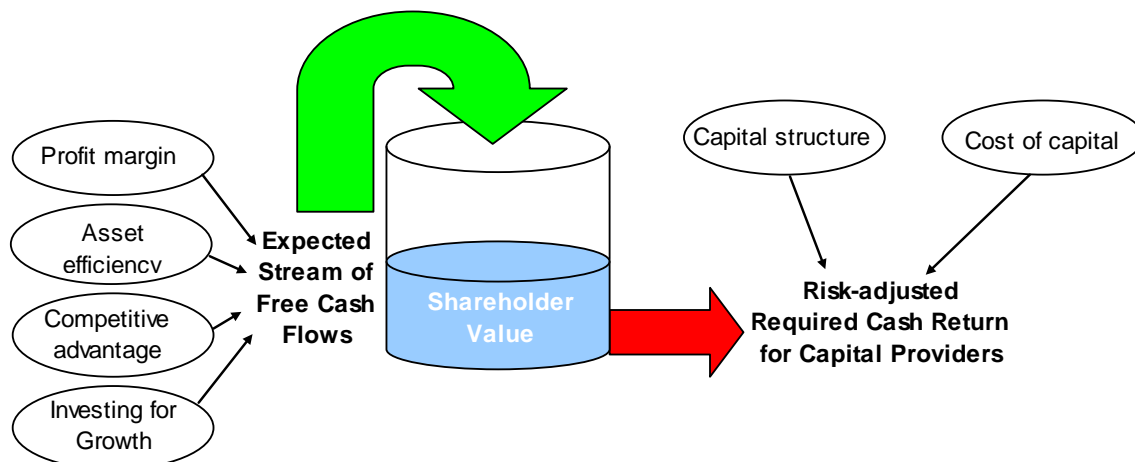


Instructor: Greg Chaudoin, FRM
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Office: Room 4A2-1
Phone: (312) 567-5007
Office hours: Monday and Wednesday, 12:30-1:40, 3:10-4:30 and by appointment

Text: *Corporate Finance*, 9/e, Ross, Westerfield, and Jaffe (Required)
Class notes (see outline) will be provided on Blackboard (blackboard.iit.edu)

Course description:

The course builds on the core corporate finance course to gain new insights and learn practical tools for business financial decision-making. There are four broad topic areas: First, the course looks at the how capital structure (the debt-equity choice) is influenced by taxes, management incentives, and market signaling motives. Second the course examines cost-effective external financing solutions, including IPOs and seasoned offerings. Third, the course covers M&A and restructuring issues. Finally, we apply financial derivatives theory to corporate risk management decisions and securities valuation.



Learning Objectives: At the end of the course you should be able to

- apply discounted cash flows techniques to value securities and projects
- understand the crucial role of market expectations in asset pricing
- find the fundamental value of a stock using multiples and discounted cash flow methods
- describe the impact of market frictions and managerial incentives on capital structure
- understand how “real option theory” alters the Net Present Value criterion
- understand empirical corporate finance literature on the winners and losers in M&A
- know the process of how a firm goes from start-up to issuing public shares
- understand the added agency costs facing financially distress firms

Relationship to Strategic Competiveness Core Ideas:

- **Entrepreneurship**—an entrepreneur must be able to offer evidence of firm value to outside suppliers of capital. This course gives you the quantitative tools to do just that.
- **Incisive Decision-Making**—this course will provide a quantitative decision-making process for choosing value-creating projects and business ventures.
- **Sustainability**—the quantitative measure firm value depends upon the assumptions of long-term, profitability and growth prospects of an enterprise. We will be able to determine which profit and growth rates are sustainable under reasonable assumptions, and which are not.

Technical Requirements: You will need a scientific or business calculator for exams. I recommend using Excel for the applied homework assignments.

Grading: 3 Exams (25% each) ←Open-book, open-notes, and **HARD** (but curved)
5-6 Applied Homework Assignments (25% total)

Estimated Course Schedule

Lectures will be augmented by academic articles and spreadsheets found on blackboard.

| Week | Topics | Chapters |
|------|---|----------|
| 1 | Review: Fun with Financial Statements and Time Value of Money | 1-5 |
| 2 | Review: Fun with Risk and Return (CAPM and all that) ☯ | 9-12 |
| 3 | Capital Structure: Debt? Equity? Does it matter? | 13-14 |
| 4 | More on Capital Structure | 14-15 |
| 5 | Exam 1; Adjusted Present Value | 17 |
| 6 | Payout Policy | 18 |
| 7 | Is There Anything Interesting about the IPO Process? Sure! | 19 |
| 8 | More on IPOs. Moral: Investment Bankers Aren't Your Friends | 19 |
| 9 | Is There Anything Interesting about Leasing? Surprisingly, YES! (Well, sort of.) | 21 |
| 10 | Exam 2; Options in Corporate Finance | 22 |
| 11 | Corporate Debt, Securitization and Bond Ratings Process | 20 |
| 12 | Corporate Risk Management | 25 |
| 13 | Economics of Mergers and Acquisitions | 29 |
| 14 | Financial Distress | 30 |
| 15 | Financial Fragility and the Banking Sector | 30 |

Finals Period **Exam 3**

You should
already know
this stuff!

Reasonable accommodations will be made for students with documented disabilities. In order to receive accommodations, students must obtain a letter of accommodation from the Center for Disability Resources and make an appointment to speak with me as soon as possible. The Center for Disability Resources is located in the Life Sciences Building, Room 218, 312-567-5744 or disabilities@iit.edu.

Copyright/Plagiarism/Academic Integrity

Rules on Plagiarism and Academic Integrity

Plagiarism and other violations of academic integrity are strictly prohibited and subject to penalty as defined by the University. Information about the IIT academic requirements for graduate students can be found at:

[http://www.iit.edu/graduate_admission/admitted_students/orientation/pdfs/Graduate Student Handbook.pdf](http://www.iit.edu/graduate_admission/admitted_students/orientation/pdfs/Graduate_Student_Handbook.pdf)

The academic integrity material in the handbook is found at page 31 in the IIT student handbook. Other parts of the handbook also contain material and rules that apply to graduate students. Students will be expected to conform to the rules and procedures set forth in the handbook.

The code of conduct governing writing by students at IIT requires original writing, prohibits plagiarism and provides severe sanctions for plagiarism. Original writing consists of thinking through ideas and expressing them in your own way. If the ideas are from other sources, use footnotes or other citation methods to indicate the source of the ideas. Plagiarism is the act of passing off someone else's work or ideas as your own. The sanctions include, but are not limited to, expulsion and the imposition of a punitive grade of 'E'.

What is Plagiarism?

Often there is some confusion as to what constitutes plagiarism. Plagiarism is the act of passing off someone else's work as your own. To assist in providing an understanding of the types of writing that constitute plagiarism, three types of are each discussed below. Also discussed below is the problem of "string citations." String citations are not plagiarism, but many professors will reject string citations because they are not the student's original work.

Word for Word copying: The use of any phrase or excerpt from another source requires the use of quotation marks around the copied material, or if the material is more than a few lines, the copied material should be placed in its own indented paragraph. A citation in proper form is always required to identify the source.

Plagiarizing by Paraphrase: When a writer uses a source, substitutes words and sentences, or even changes the order but keeps the meaning of the original, a citation is required. In the example given below, the original is on the left. The paraphrase in the right box constitutes plagiarism.

| | |
|--|--|
| <u>Original:</u> It is not generally recognized that at the same time when women are making their way into every corner of our work- | <u>Paraphrase:</u> Few people realize now that women are finding jobs in all fields, that a tiny percentage of the country's |
|--|--|

| | |
|--|---|
| <p>world, only one percent of the professional engineers in the nation are female. A generation ago, this statistic would have raised no eyebrows, but today, it is hard to believe.</p> | <p>engineers are female. Years ago this would have surprised no one, but now it seems incredible.</p> |
|--|---|

The writer could avoid plagiarism here by acknowledging the source and providing a proper citation.

Mosaic Plagiarism: Here the writer lifts phrases and terms from the source and embeds them in his own prose. An example follows in which the lifted phrases are underlined:

The pressure is on to get more women into engineering. The engineering schools and major corporations have opened wide their gates and are recruiting women zealously. Practically all women engineering graduates can find attractive jobs. Nevertheless, at the moment, only one percent of the professional engineers in the country are female.

Mosaic plagiarism is sometimes caused by careless note taking. However, it looks dishonest and is judged as such. The use of quotation marks around the original wording and citation avoid the problem of plagiarism. Often a better approach is to use paraphrase or to quote directly (with appropriate citations).

Plagiarism can be avoided by providing citations for the sources of any material, including *ideas, phrases, or sentences* that you have used in your paper. A number of different systems are available for providing citations. The key to all of them is that the writer must clearly identify for the reader the sources of all material (including ideas) that have come from somewhere else.

String Quotation Problem: Sometimes a student will write a paper consisting of a string of quotations. It is usually much better for a student to provide his or her own analysis and write the paper in his or her own words. Many professors will reject a paper consisting primarily of material quoted from other sources because they do not view such a paper as the student's own work. You should understand your professor's view with respect to string quotations prior to writing your paper.