

**University of Chicago**  
**Harris School of Public Policy Studies**  
**Corporate Finance Public Policy 34410**  
**Spring 2021**  
**DRAFT 2/1/2021**

Lecturer: David H. Schabes

Prerequisites: None

Dates: March 29, 2021 – June 3, 2021. Final Exam: June 3

Time: TTH 940 AM – 1100 AM. Location: Remote via Zoom

Office: 1307 East 60<sup>th</sup> Street, Room 3045

Office Hours: TBD via Zoom

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Teaching Assistants: TBD

Teaching Assistant Sessions: TBD Office Hours: TBD

**Course Description:** This course presents an introduction to the principles of corporate finance and its applications. These principles are critical to understanding the nature of how corporations and many government entities present their financial condition, finance themselves and manage their financial risks. We will examine corporate structure, evaluation of new projects, financial planning and governance. Perspectives will include those of debt and equity holders as well as key management members, including the Chief Executive Officer, Chief Financial Officer and Treasurer. Additional material relating to the public policy issues that certain corporate decisions create will be considered.

**Grading:** There will be a midterm exam during week 6 and a comprehensive final examination during finals week. There will be seven graded problem sets accompanying approximately once a week. In addition, students may purchase MyFinanceLab online access, which provides additional practice problems.

The course grade will be based on the following:

- Mid-term Exam 25%
- Final Exam 35%
- Problem Sets 35%
- Class Participation 5%

I will post answers to problem sets the day after they are due. Problem sets turned in late will receive a maximum grade of 50%.

Class participation may be accomplished in a number of ways:

- Asking questions orally or through chat in class.
- Having your camera on regularly during lectures. (This helps me gauge how well people are following the lectures.) I realize that everyone's housing situation may not allow this.
- Asking questions via email and coming to office hours.

### **Academic Integrity:**

All University of Chicago students are expected to uphold the highest standards of academic integrity and honesty. Among other things, this means that students shall not represent another's work as their own, use un-allowed materials during exams, or otherwise gain unfair academic advantage. All students suspected of academic dishonesty will be reported to the Harris Dean of Students for investigation and adjudication. The disciplinary process can result in sanctions up to and including suspension or expulsion from the University. In addition to disciplinary sanctions, I will impose a penalty of a grade of 0 on the exam or problem set in question and the student cannot earn higher than a B- in the course for students who have committed academic dishonesty. The Harris policy and procedures related to academic integrity can be found at <https://harris.uchicago.edu/gateways/current-students/policies>. The University of Chicago Policy on Academic Honesty & Plagiarism can be found at <https://studentmanual.uchicago.edu/academic-policies/academic-honesty-plagiarism/>

### Text and Other Readings:

Berk, Jonathan and DeMarzo, Peter. *Corporate Finance, The Core*. Fifth Edition. Pearson, 2019. MyFinanceLab, an online study tool, is available, but not required. The text is available for rental or as an etext through the publisher, amazon or the UChicago bookstore.

Forester, Christopher M. and Ferber, Celeste S. *Fiduciary Duties and Other Responsibilities of Corporate Directors and Officers*. Sixth Edition. RR Donnelley, 2016. [Latest free online edition is fine.]

Espinoza, Javier et al. "Apple wins landmark battle with EU over €14.3bn of tax payments." *The Financial Times*, July 15 2020. [Apple EU Tax Case](#)

Flood, Chris. "Financial wizardry breathes magic into private equity returns." *the Financial Times*, June 21, 2020. [Financial Wizardry](#)

Wigglesworth, Robin. "The debt bubble legacy of economists Modigliani and Miller." *Financial Times*, October 20, 2020. [Modigliani and Miller](#)

Platt, Eric, and Andrew Edgecliffe-Johnson. 2020. "WeWork: How the Ultimate Unicorn Lost Its Billions." *Financial Times*, February 19, 2020. [WeWork](#)

Other relevant readings will be assigned from time to time.

**A financial calculator is required. Please have it available to use in class.** They are available from the Bookstore or online retailers.

Models which suffice include (should cost no more than \$30):

- Texas Instruments BA II Plus
- HP 10bII+
- HP 12 C or CP

**Phone based calculators may not be used for quizzes or exams**

Weekly Schedule:

Date/Readings and Assignments	Lecture Topics
<p>Mar 30</p> <p><u>Berk and DeMarzo: Chapter 1.1 and 1.2</u></p> <p><a href="#">Apple EU Tax Case</a></p>	<p><i>Course Introduction and Corporate Organizations</i></p> <ul style="list-style-type: none"> <li>• <i>Proprietorships and Partnerships</i></li> <li>• <i>Limited Liability Companies, type “S” and “C” Corporations</i></li> <li>• <i>Property Rights, Tax Issues and Liability</i></li> </ul>
<p>Apr 1</p> <p><u>Berk and DeMarzo: Chapter 1.3 and 1.4</u></p>	<p><i>Corporate Goals and Financial Markets</i></p> <ul style="list-style-type: none"> <li>• <i>Ownership and Control, Agency Issues</i></li> <li>• <i>Corporate Management</i></li> <li>• <i>Stock Market Basics</i></li> </ul>
<p>Apr 6</p> <p><u>Berk and DeMarzo: Chapter 2.1 through 2.4</u></p> <p>Problem Set 1 Due</p>	<p><i>Financial Statement Analysis I</i></p> <ul style="list-style-type: none"> <li>• <i>Balance Sheet – key components, tangible v intangible, market v book equity</i></li> <li>• <i>Income Statement – gross profit, operating expenses</i></li> <li>• <i>Valuation measures</i></li> <li>• <i>Statement of Cash Flows – EBITDA</i></li> </ul>
<p>Apr 8</p> <p><u>Berk and DeMarzo: Chapter 2.5 - 2.7</u></p>	<p><i>Financial Statement Analysis II</i></p> <ul style="list-style-type: none"> <li>• <i>Additional statement information</i></li> <li>• <i>Statement Analysis – common financial ratios</i></li> </ul>
<p>Apr 13</p>	<p><i>Financial Statement Analysis III</i></p> <ul style="list-style-type: none"> <li>• <i>Additional measures of financial health</i></li> <li>• <i>Margin analysis</i></li> <li>• <i>Tesla</i></li> <li>• <i>Accounting “Tricks” played by companies – Enron</i></li> </ul>
<p>Apr 15</p> <p><u>Berk and DeMarzo: Chapter 3; including Appendix</u></p> <p>Problem Set 2 Due</p>	<p><i>Financial Decision Making and the Law of One Price</i></p> <ul style="list-style-type: none"> <li>• <i>Present time value of money, net present value, and risk free rate</i></li> <li>• <i>Definition of arbitrage and the no-arbitrage price</i></li> <li>• <i>Law of One Price – limitations: transportation, local supply/demand constraints</i></li> </ul>
<p>Apr 20</p> <p><u>Berk and DeMarzo: Chapter 4</u></p>	<p><i>Time Value of Money—Introduction to Interest Rates</i></p> <ul style="list-style-type: none"> <li>• <i>Rules for Cash Flow Valuation</i></li> <li>• <i>Annuities and Perpetuities</i></li> <li>• <i>Periodic Payments</i></li> </ul>

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<p>Apr 22</p> <p><u><i>Berk and DeMarzo: Chapter 5</i></u></p> <p>Problem Set 3 Due</p>	<p><i>Interest Rates</i></p> <ul style="list-style-type: none"> <li>• <i>Interest rate determinants</i></li> <li>• <i>Term Structure of Interest Rates (the Yield Curve)</i></li> <li>• <i>Risk and Interest Rate Risk Measurements</i></li> <li>• <i>Bond Terminology and Pricing</i></li> </ul>
<p>Apr 27</p> <p><u><i>Berk and DeMarzo: Chapter 6</i></u></p>	<p><i>Bond Valuation</i></p> <ul style="list-style-type: none"> <li>• <i>Bond Cashflows, Prices and Yields</i></li> <li>• <i>Dynamic Behavior</i></li> <li>• <i>The Yield Curve</i></li> <li>• <i>Corporate and Sovereign Debt</i></li> </ul>
<p>Apr 29</p> <p><u><i>Berk and DeMarzo: Chapter 7.1 - 7.3</i></u></p> <p><a href="#">Financial Wizardry</a></p> <p>Problem Set 4 Due</p>	<p><i>Project Valuation I</i></p> <ul style="list-style-type: none"> <li>• <i>Net Present Value</i></li> <li>• <i>Internal Rate of Return</i></li> <li>• <i>Payback Rule</i></li> </ul>
<p>May 4</p> <p><u><i>Berk and DeMarzo: Chapter 7.4–7.5 and Appendix</i></u></p>	<p><i>Project Valuation II</i></p> <ul style="list-style-type: none"> <li>• <i>Choosing Amongst Projects</i></li> </ul>
<p>May 6</p>	<p><i>Midterm Exam</i></p>
<p>May 11</p> <p><u><i>Berk and DeMarzo: Chapter 8.1 - 8.2</i></u></p>	<p><i>Capital Budgeting I</i></p> <ul style="list-style-type: none"> <li>• <i>Forecasting revenues expenses and earnings</i></li> <li>• <i>Determining free cash flow and NPV</i></li> </ul>
<p>May 13</p> <p><u><i>Berk and DeMarzo: Chapter 8.3 – 8.5</i></u></p> <p>Problem Set 5 Due</p>	<p><i>Capital Budgeting II</i></p> <ul style="list-style-type: none"> <li>• <i>Free cash flow analysis</i></li> <li>• <i>Project analysis and sunk cost fallacy</i></li> <li>• <i>Taxes</i></li> <li>• <i>Sensitivity analysis</i></li> </ul>

Date/Readings and Assignments	Lecture Topics
<p>May 18</p> <p><u><i>Berk and DeMarzo: Chapter 14</i></u></p>	<p><i>Capital Structure in a Perfect Market</i></p> <ul style="list-style-type: none"> <li>• <i>Modigliani and Miller I and II</i></li> <li>• <i>Capital Structure Fallacies</i></li> </ul>
<p>May 20</p> <p><u><i>Berk and DeMarzo: Chapter 15</i></u></p> <p><a href="#">Modigliani and Miller</a></p> <p>Problem Set 6 Due</p>	<p><i>Debt and Taxes</i></p> <ul style="list-style-type: none"> <li>• <i>Impact of tax deductibility of debt</i></li> <li>• <i>M&amp;M III</i></li> </ul>
<p>May 25</p> <p><u><i>Forrester and Ferber Chaps. 1 and 2.</i></u></p>	<p><i>Corporate Governance</i></p> <ul style="list-style-type: none"> <li>• <i>Shareholders and Agency Issues -- Compensation</i></li> <li>• <i>The Board of Directors</i></li> <li>• <i>Governance Process --Corporate Agenda/Calendar Regulation and International Governance Comparisons</i></li> </ul>
<p>May 27</p> <p><u><i>Berk and DeMarzo: Chapter 16.1 – 16.3</i></u></p> <p><u><i>Platt, WeWork.</i></u></p> <p>Problem Set 7 Due</p>	<p><i>Financial Distress and Bankruptcy</i></p> <ul style="list-style-type: none"> <li>• <i>What happens when a company gets into financial trouble? How are things worked out?</i></li> <li>• <i>Stakeholders: banks, owners, employees (unions)</i></li> <li>• <i>Special Situations Groups</i></li> <li>• <i>Privately negotiated restructurings</i></li> <li>• <i>Bankruptcy processes</i></li> </ul>
<p>Jun 1</p> <p><u><i>Berk and DeMarzo: Chapter 16.4 – 16.9</i></u></p>	<p><i>Capital Structure, Agency and Information</i></p> <ul style="list-style-type: none"> <li>• <i>Tradeoff Theory</i></li> <li>• <i>Leverage and Agency</i></li> <li>• <i>Information Asymmetry</i></li> </ul>
<p>June 3 Final Exam</p>	<p><i>Final Exam Online</i></p>