

University of Chicago
Harris School of Public Policy Studies
Corporate Finance Public Policy 34410
Autumn 2023
DRAFT June 13, 2023

Lecturer: David H. Schabes

Prerequisites: Completion of Harris core Microeconomics sequence I & II and Statistics sequence I & II or instructor's permission

Dates: September 26, 2023 – November 30, 2023. Final Exam: Week of December 4

Time: T TH 11:00 AM – 12:20 PM. Location: Keller 0001

Office: 1307 East 60th Street, Room 3045

Office Hours: T 3:30 PM – 4:30 PM or by appointment

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Teaching Assistants: Administrative:

Teaching:

Grading:

Teaching Assistant Sessions:

Teaching Assistant Office Hours:

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.

Classroom Protocol

Students should expect to attend all lectures and several TA sessions over the quarter. Attendance will be taken and considered part of the course participation grade. Much of the material required to successfully complete the problem sets and final exam will be presented orally in class. The course will be difficult to complete successfully without the ability to make this commitment. Assigned readings should be completed prior to the lecture.

Lectures will not be recorded, unless an exception is provided by Student Disability Services or the Office of the Dean of Students.

Course Goals:

The course attempts to address the following questions:

1. What are the essential tools for business analysis and financing decision-making?
2. How do we determine the time value of money and what is the role of interest rates?
3. How do we price various types of debt, including loans and bonds?
4. How are net present value and internal rate of return, among others, used in financial decision-making?
5. How do we forecast and analyze a firm's earnings and cash flow and how is equity valued by investors?
6. What are the methods by which investors price risk?
7. How does the capital structure of a firm determine the financing costs and risks it faces?
8. What are the Modigliani Miller propositions and how have they influenced financial decision making?
9. What are the implications of tax policy on financial decisions?
10. Why do financial distress situations and bankruptcies occur?
11. How do we develop an understanding of financial statements?
12. What is the role of corporate governance in supporting good financial decision-making?

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/>

Grading:

There will be seven graded problem sets approximately once a week. Problem sets must be completed by each student individually, though you may discuss the problems with your fellow students in the course. **You may not consult online sources of homework answers such as CourseHero, or obtain answers from students who have previously taken the course. Assignments must be submitted on Gradescope.**

The course grade will be based on the following:

1. Final Exam 35%
2. Problem Sets 60%
3. Course Participation 5%

Problem sets must be submitted by 11:59PM on the date due. Late assignments will be subject to a penalty of up to 50% reduction of the recorded grade. There will not be any exceptions made for assignment due dates.

The final exam, given finals week, will be comprehensive and have a 2 hour time limit. Only exceptions approved by the Dean of Students will be accepted for not taking the final exam at the scheduled time.

Students may take the course Pass/Fail subject to Harris School policy. A cumulative average of 60% is required for a Pass grade.

Finance and Policy Certificate:

This course is one of the available electives to fulfil the requirements of the Finance and Policy Certificate.

Text and Other Readings:

Brealey, Richard A., Stewart C. Myers, and Franklin Allen. 2023. *Principles of Corporate Finance*. Fourteenth edition. New York, NY: McGraw-Hill Education. *connect* online tool will be available but not required. **There are substantial differences between the 14th edition and prior editions. I do not recommend using prior editions.**

Periodically assigned readings are available through the links embedded in the weekly schedule.

A financial calculator is required. Phone based calculators may not be used for the final exam. 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+ or HP 12 C or CP.

Readings listed below should be completed prior to the related lecture topic.

Weekly Schedule:

Date/Readings and Assignments	Lecture Topics
September 26 <i><u>Brealey et al Chapter 1 including Appendix</u></i> <u>Freidman Doctrine</u>	<i>Course Introduction and Corporate Organizations</i>
September 28 <i><u>Brealey et al Chapter 2</u></i>	<i>Present Value Calculation</i>
October 3 <i><u>Brealey et al Chapter 3</u></i> Problem Set 1 Due	<i>Bond Valuation</i>
October 5 <i><u>Brealey et al Chapter 4</u></i> <u>PG&E Article</u>	<i>Equity Trading and Valuation</i>
October 10 Problem Set 2 Due	<i>Equity Trading and Valuation (continued)</i>
October 12 <i><u>Brealey et al Chapter 5</u></i>	<i>Net Present Value and Other Investment Criteria</i>

Date/Readings and Assignments	Lecture Topics
<p>October 17</p> <p><u><i>Brealey et al Chapter 6</i></u></p> <p>Problem Set 3 Due</p>	<p><i>Making Investment Decisions with the NPV Rule</i></p>
<p>October 19</p> <p><u><i>Brealey et al Chapter 7</i></u></p>	<p><i>Introduction to Risk and Return</i></p>
<p>October 24</p> <p><u><i>Brealey et al Chapter 8</i></u> <u>Archegos Capital</u></p> <p>Problem Set 4 Due</p>	<p><i>Portfolio Theory and Capital Asset Pricing</i></p>
<p>October 26</p> <p><u><i>Brealey et al Chapter 9</i></u> Skip Certainty Equivalents</p>	<p><i>Risk and the Cost of Capital</i></p>
<p>October 31</p> <p><u><i>Brealey et al Chapter 10</i></u></p> <p>Problem Set 5 Due</p>	<p><i>Project Analysis</i></p>
<p>November 2</p> <p><u><i>Brealey et al Chapter 11</i></u></p>	<p><i>Ensuring Positive NPV</i></p>

Date/Readings and Assignments	Lecture Topics
November 7 <u>Brealey et al Chapter 13</u>	<i>An Overview of Corporate Finance</i>
November 9 <u>Brealey et al Chapter 14</u> <u>FTX Case Study</u> Problem Set 6 Due	<i>How Corporations Issue Securities</i>
November 14 <u>Brealey et al Chapter 16</u>	<i>Does Debt Policy Matter?</i>
November 16 <u>Brealey et al Chapter 17</u>	<i>How Much Should a Corporation Borrow? Part I</i>
November 28 Problem Set 7 Due	<i>How Much Should a Corporation Borrow? Part II</i>
November 30 <u>Brealey et al Chapter 18</u>	<i>Financing and Valuation</i>
Week of December 4	<i>Final Exam: XX:00 AM -XX:00 PM Room 0001</i>