

**University of Chicago**  
**Harris School of Public Policy Studies**  
**Corporate Finance Public Policy 34410**  
**Autumn 2024**  
**DRAFT August 29, 2024**

Lecturer: David H. Schabes

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

Dates: September 30, 2024 – November 30, 2024. Final Exam: TBD – Week of December 2

Time: MW 10:30 AM – 11:50 AM. Location: Keller 0021

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

Office Hours: T 1100 AM – 1200 PM or by appointment

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Teaching Assistants: Teaching: Amir Ali Rajani      [amrajani@uchicago.edu](mailto:amrajani@uchicago.edu)  
Grading: Melinda Wang      [mwang65@chicagobooth.edu](mailto:mwang65@chicagobooth.edu)

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, financial statements, valuation of projects debt and equity, 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 is 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.**

## Course Goals:

The course introduces students to the following topics:

1. The essential tools for business analysis and financing decision-making
2. Determination of the time value of money and the role of interest rates
3. Pricing of various types of debt, including loans and bonds
4. The use of net present value and internal rate of return, among other, financial decision-making tools
5. Forecasting and analyzing a firm's earnings and cash flow and determining how is equity valued by investors
6. The methods by which investors price risk
7. The effect of capital structure on a firm's financing costs and risks
8. The Modigliani Miller propositions and how have they influenced financial decision making
9. The implications of tax policy on financial decisions
10. Why companies fall into financial distress and bankruptcy and how these are resolved
11. Basic understanding of financial statements
12. 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/>

## Artificial Intelligence and Large Language Models

The use of any AI or LLM tools in this class is prohibited. Among the key learnings is how to calculate and analyze financial information. Successful understanding of these areas requires completing such work using a financial calculator or Excel and writing your observations regarding the numerical analysis yourself.

### 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 penalties as follows:**

- **One hour late: 5%**
- **One day late 25%**
- **Prior to release of assignment answer sheet (usually three or four days) 50%**
- **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 14<sup>th</sup> 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 30  <u><i>Brealey et al Chapter 1 including Appendix</i></u>	<i>Course Introduction and Corporate Organizations</i>
October 2  <u><i>Freidman Doctrine</i></u> <u><i>Brealey et al Chapter 2</i></u>	<i>Present Value Calculation</i>
October 7  <u><i>Brealey et al Chapter 3</i></u>	<i>Bond Valuation</i>
October 9  <u><i>Brealey et al Chapter 29</i></u>	<i>Bond Valuation and Financial Analysis</i>
October 14  Problem Set 1 Due	<i>Financial Analysis</i>
October 16  <u><i>Brealey et al Chapter 4</i></u> <u><i>PG&amp;E Article</i></u>	<i>Equity Trading and Valuation</i>
October 21  Problem Set 2 Due (Financial Analysis)	<i>Equity Trading and Valuation (continued)</i>

Date/Readings and Assignments	Lecture Topics
<p>October 23</p> <p><u><i>Brealey et al Chapter 5</i></u></p>	<p><i>Net Present Value and Other Investment Criteria</i></p>
<p>October 28</p> <p><u><i>Brealey et al Chapter 6</i></u>  <a href="#"><u><i>PG&amp;E Wildfire Plan in Peril</i></u></a>  <a href="#"><u><i>PG&amp;E KKR Deal Proposal</i></u></a>  <a href="#"><u><i>Regulator Rejection of Deal</i></u></a></p>	<p><i>Making Investment Decisions with the NPV Rule</i></p>
<p>October 30</p> <p><u><i>Brealey et al Chapter 7</i></u></p> <p>Problem Set 3 Due</p>	<p><i>Introduction to Risk and Return</i></p>
<p>November 4</p> <p><u><i>Brealey et al Chapter 8</i></u>  <a href="#"><u><i>Archehos Capital</i></u></a></p>	<p><i>Portfolio Theory and the Capital Asset Pricing Model</i></p>
<p>November 6</p> <p><u><i>Brealey et al Chapter 9</i></u>  Skip Certainty Equivalents</p> <p>Problem Set 4 Due</p>	<p><i>Risk and the Cost of Capital</i></p>
<p>November 11</p> <p><u><i>Brealey et al Chapter 10</i></u></p>	<p><i>Project Analysis</i></p>
<p>November 13</p> <p><u><i>Brealey et al Chapter 11</i></u></p> <p>Problem Set 5 Due</p>	<p><i>Ensuring Positive NPV</i></p>

Date/Readings and Assignments	Lecture Topics
November 18  <u>Brealey et al Chapter 14</u>	<i>How Corporations Issue Securities</i>
November 20  <u>Brealey et al Chapter 1</u>  Problem Set 6 Due	<i>Does Debt Policy Matter?</i>
Break Week	
December 2  <u>Brealey et al Chapter 17</u> <a href="#"><u>Kroger Albertsons Merger</u></a> <a href="#"><u>Consumers</u></a> <a href="#"><u>Kroger Albertsons Worker Rights</u></a>	<i>How Much Should a Corporation Borrow? Part I</i>
December 4  Problem Set 7 Due	<i>How Much Should a Corporation Borrow? Part II</i>
Week of December 9	<i>Final Exam: Room xxxx xxx PM – xxx PM</i>