

University of Virginia
Department of Economics

ECON 4350
Corporate Finance
Spring 2024
T Th 5 – 6:15 (Clark 107)

Instructor: C. Dylan McGee
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Office Hours in Monroe 211- M 1 – 3 and T Th 3:30 – 4:30
Office Hours by Zoom- Friday 10 – 11 (by request)

Text: Brealey, Richard A., Stewart C. Myers and Alan J. Marcus. 2023. *Fundamentals of Corporate Finance*, 11th Edition. New York: McGraw-Hill.
(e-book available thru bookstore inclusive access menu in Canvas)

Course Description: Introduction to principles and techniques utilized in the financial management of business. Topics to be covered include: interpretation of financial statements, ratio analysis, present value, bond valuation and interest rates, stock valuation, net present value analysis, risk and return, cost of capital, and capital structure. Most class time will be spent on lecture and practice problems.

Course Objective: To gain an understanding of the basic ideas and terminologies that are essential for literacy in business finance.

Evaluation:

7% for Participation/Effort: show up for at least 7 discussions (Wednesday evenings) and participate by working on practice problems and questions. Given that 3 of the discussions will be great chances for review before each test—see dates below—this should be easy, and it gives you a bit of a nudge to attended discussions whenever you feel it would be most helpful (without requiring it every week). Going every week will obviously be beneficial since I will identify practice material on a weekly basis that is highly relevant for tests.

45% on Three Tests (15% each) on Feb 8th March 14th and April 11th: these will all be on a Thursday and will correspond (roughly) to the first three headings in the course outline below. There will be designated practice problems and questions (from the text and my handouts) to help you know what to expect on tests. Your lowest test can be replaced by the final exam score if that helps your course grade. I will do that (after the final exam) for all students who have a final above the lowest test. I also use that substitution instead of a make-up test (i.e. final replaces the zero since that will be the lowest of your three tests). I will only do a make-up test in the rare instance of someone who misses 2 tests with a valid reason (in which case a make-up is allowed on the 2nd one and the 1st is replaced by the final). In addition, there will be one optional spreadsheet assignment for anyone who wants to be eligible to have the final exam replace two tests instead of one.

8% on Group Special Topic Presentation (videos uploaded by 4/30)

40% on a Comprehensive Final Exam on Saturday May 4th at 9am

The final will replace your lowest test if that helps your grade. If you do the optional spreadsheet assignment, you can be eligible for the final to replace two tests (for 70% on the final). Again, that replacement would only happen if it helps your course grade (a partial Dutch-Knockout).

Course Outline:

Introduction

Chapter 1 Goals and Governance
Chapter 2 The Financial System
Chapter 3 Accounting and Finance
Chapter 4 Measuring Corporate Performance

Value

Chapter 5 The Time Value of Money
Chapter 6 Valuing Bonds
Chapter 7 Valuing Stocks
Chapters 8, 9, and 10 Net Present Value and other Criteria for Project Analysis

Risk and the Cost of Capital

Chapter 11 Risk, Return, and the Opportunity Cost of Capital
Chapter 12 Beta and CAPM
Chapter 13 The Weighted Average Cost of Capital

Debt and Capital Structure

Chapter 16 Debt Policy

Additional Information:

I will use Power Point presentations that will be made available thru Canvas, but I will also use the board frequently and give you some problems to practice (usually toward the end of lecture). On one or two occasions, I might have you do some work in Excel during lecture (on your laptop or partnering with a neighbor).

As stated above, I will provide suggested practice material on a weekly basis (from the text and in handouts that I will also share in Canvas). Before each test I will indicate which material is relevant for the test. The exact chapter break-down will depend on the pace of progress, but Test 1 will be on the Introduction section of the outline, Test 2 will be on the Value section, and Test 3 will likely include the last bits of the Value section together with chapters 11 and 12.

Group Presentation Assignment on Special Topics (Due by 4/30)

You will make a video in groups of 2 – 4 students on a special topic. The intention here is for roughly 5 or 6 minutes per student, and you can define the scope of the presentation based on the size of your group. A 6-8 minute solo video is possible if you prefer working alone, but I encourage you to work with a group and aim for 5 minutes per presenter. Zoom recordings with PPT is the standard approach, but other videos can be loaded into the Media Gallery. You will submit the video and I will activate it so it's available to the class.

Here is a list of potential topics (note that the text has helpful chapters on many of the topics)

- 1) IPOs (this might encompass SPACs and/or Direct Listings if you like)
- 2) Mergers and Acquisitions
- 3) Private Equity and Leveraged Buyouts
- 4) Bankruptcy
- 5) Venture Capital
- 6) Currency Risk Management
- 7) Meme Stocks, Payment for Order Flow, and the Robinhood IPO
- 8) ESG investing (this might include the Exxon proxy contest or the greenwashing debate)
- 9) The FTX implosion
- 10) The recent approval of Bitcoin ETFs by the SEC

I am open to other topics based on current events and recent trends. For example: issues related to Chinese companies listed on U.S. exchanges and speculation about Chinese policy, or the Evergrande default, or the recent push for a global minimum corporate tax, or other issues involving the complexity of multi-national taxation, or the older question of whether Sarbanes Oxley caused a move toward private rather than public status, or cryptocurrency and blockchain, or crowdfunding, or fintech. Many potential topics overlap with others, so you can use your discretion. Foreign students may have greater knowledge of international corporate finance issues that would be interesting to me and your fellow students. Many of you may have specific knowledge based on internships or other work experience that your classmates would like to hear about (for example, I have had students who worked on leveraged loans). I am not looking for original research so much as a good explanation of historical episodes and ongoing trends, so sources based on financial journalism can be a good starting point.

