

# COMM 3720: Intermediate Corporate Finance

Prof. Robert Parham

Spring 2022

## Details

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| <u>Instructor:</u>   | Robert Parham  |
| <u>E-mail:</u>       | <a href="mailto:kn.owled.ge@virginia.edu">kn.owled.ge@virginia.edu</a> |
| <u>Web:</u>          | <a href="http://kn.owled.ge/teaching">kn.owled.ge/teaching</a>         |
| <u>Zoom:</u>         | <a href="http://kn.owled.ge/meet">kn.owled.ge/meet</a>                 |
| <u>Scheduling:</u>   | <a href="http://kn.owled.ge/sched">kn.owled.ge/sched</a>               |
| <u>Office hours:</u> | Wednesday 12:00-13:00 (by scheduling)<br>Wednesday 13:00-14:00 (open)  |
| <u>Office:</u>       | RRH 380  |
| <u>Classroom:</u>    | RRH 225  |
| <u>Class times:</u>  | Tue & Thu, 11:00-12:15; 12:30-13:45; 15:30-16:45                       |

## Course objective

A rigorous introduction to the full field of finance, with an eye for valuation. **You will understand the “Why” and the “How” of finance**; build a toolkit to assist you in analyzing financial situations and decisions; learn how to value risky assets using modern portfolio theory; understand which decisions are faced by corporate financial managers and how to make those decisions; and attain some understanding of advanced subjects including options, IPOs, M&As, and crypto-assets. A unifying theme of the course is **how the no-arbitrage condition gives rise to the law of one price** and can be used to value most financial assets.

A core objective of the course is to build your understanding of modern finance **from first principles**. As such, the course **does not assume any prior knowledge of finance**. Both the basics of accounting and fundamental statistics are however important prerequisites. **Especially statistics**. The course will require several hours of studying at home every week.

## Course material

**Textbook:** **Corporate Finance, by Jonathan Berk and Peter DeMarzo.** ISBN-13: 978-0-13-499835-0. We are following the book closely, and **required readings are assigned from the book nearly every class.** We use the fifth edition, but previous editions (3rd and up) and international/core versions will also do, in a pinch.

**Readings & Media:** You are required to read several scientific and news articles, watch a variety of online videos, and read one book during the semester. The articles and video links are **available on Blackboard.** The book is **The Ascent of Money, by Niall Ferguson (2008).** ISBN-13: 978-1-59-420192-9

**Inclusive Access:** This course will take part in the Inclusive Access program with The UVA Bookstore. This service provides immediate access to your digital course materials (i.e., the Berk DeMarzo e-book) through Blackboard. Log in to your Blackboard course site and click on the UVA Digital Tab. Follow the instructions to access the digital materials. **If you do not opt-out by the second week of class, your student account will be charged for the book (\$30, last I checked).** If you decide you do not want to purchase the e-book, you can opt-out of the program by clicking "OPT-OUT." If you have any questions regarding the program, please email [textbook@virginia.edu](mailto:textbook@virginia.edu) or call 434-924-1045.

## COVID

Luckily, in-person classes are back. But masks are still required in class per university policy. **Humans differ in their risk-aversion** and cooperating in a group endeavor requires that we respect each other's differences. **Please be respectful and practice proper mask etiquette.**

## Course schedule

Course schedule is given below. Readings are required **before** each class session. **You can import the entire course schedule** (classes, due-dates, TA sessions, etc.) to your calendars. See my website for links.

| #  | Day | Date      | Topic                     | Before class   |
|----|-----|-----------|---------------------------|--|
| 1  | Thu | 1/20/2022 | Intro                     | Read "I, Pencil"; Watch Yuval Noah-Harrari; Watch "The wonder of prices" |
| 2  | Tue | 1/25/2022 | Time                      | Watch Econ Principles; Watch "Money & Debt";<br>Read BDM Ch. 3,4,5       |
| 3  | Thu | 1/27/2022 | Bonds                     | Read BDM Ch. 6, 7  |
| 4  | Tue | 2/1/2022  | Firms                     | Review ALB's 10-K; Read BDM Ch. 8, 9                                     |
| 5  | Thu | 2/3/2022  | Simple models 1           | Read Dunn, Gilbert, Wilson (2011)  |
| 6  | Tue | 2/8/2022  | Simple models 2           |  |
| 7  | Thu | 2/10/2022 | Risk 1                    | Read BDM Ch. 10  |
| 8  | Tue | 2/15/2022 | Risk 2                    | Read BDM Ch. 11  |
| 9  | Thu | 2/17/2022 | CAPM                      | Read Markowitz (1952)  |
| 10 | Tue | 2/22/2022 | Beta                      | Read BDM Ch. 12  |
| 11 | Thu | 2/24/2022 | Cost of capital           |  |
| 12 | Tue | 3/1/2022  | Market efficiency         | Read BDM Ch. 13; Read "Don't read the comments"                          |
| 13 | Thu | 3/3/2022  | Buffer                    | Finish reading "Ascent of Money"   |
|    |     |           | Midterm                   |  |
|    |     |           | Spring Break              |  |
| 14 | Tue | 3/15/2022 | Midterm review            |  |
| 15 | Thu | 3/17/2022 | The firm                  | Watch "Life-cycle"; Read "Purpose" and "Anti-ESG";<br>Read BDM Ch. 1,2   |
| 16 | Tue | 3/22/2022 | Perfect capital structure | Read Modigliani-Miller (1958); Read BDM Ch. 14                           |
| 17 | Thu | 3/24/2022 | Taxes                     | Read BDM Ch. 15  |
| 18 | Tue | 3/29/2022 | Bankruptcy                | Read "Hertz stock"   |
| 19 | Thu | 3/31/2022 | Agency                    | Read BDM Ch. 16  |
| 20 | Tue | 4/5/2022  | Information               | Read Akerlof (1970); Read "Proof of life"                                |
| 21 | Thu | 4/7/2022  | Payout policy             | Read BDM Ch. 17  |
| 22 | Tue | 4/12/2022 | Levered valuation         | Read BDM Ch. 18  |
| 23 | Thu | 4/14/2022 | Equity (IPO & M&A)        | Read "Affirmation" and "Lockups"; Read BDM Ch.<br>23,28                  |
| 24 | Tue | 4/19/2022 | Options                   | Read BDM Ch. 20,21   |
| 25 | Thu | 4/21/2022 | Crypto assets 1           | Read Nakamoto (2008); Read "NFTs" and "Tether"                           |
| 26 | Tue | 4/26/2022 | Crypto assets 2           |  |
| 27 | Thu | 4/28/2022 | The big picture           |  |
| 28 | Tue | 5/3/2022  | Buffer                    |  |
|    |     |           | Final                     |  |

## Assignments

The 10 assignments are listed below. Assignments will be released at 9 AM on the release date and are **due by 5:55 PM on the due date**. All assignments are given and submitted via Blackboard. Most assignments require you to **provide only final answers**. There is no partial credit for wrong answers. Assignment solutions will become available on Blackboard at the due date & time. The class RAs will hold **frontal evening sessions** after each assignment is due, in which **they will solve the assignment and answer questions**.

| #  | Topic                  | Released@9AM | Due@5:55PM |
|----|------------------------|--------------|------------|
| 1  | Statistics             | 1/20/2022    | 1/26/2022  |
| 2  | Time + Bonds           | 1/27/2022    | 2/2/2022   |
| 3  | Firms + Models         | 2/8/2022     | 2/14/2022  |
| 4  | Risk                   | 2/15/2022    | 2/23/2022  |
| 5  | CAPM + Cost of Capital | 2/24/2022    | 3/2/2022   |
| 6  | Efficiency + Purpose   | 3/17/2022    | 3/23/2022  |
| 7  | Capital Structure      | 3/29/2022    | 4/4/2022   |
| 8  | Frictions and Payout   | 4/7/2022     | 4/13/2022  |
| 9  | Equity and Options     | 4/19/2022    | 4/25/2022  |
| 10 | Valuation Project      | 4/12/2022    | 5/5/2022   |

## Exams

**There will be two exams.** The midterm will be on or around 3/3/2022, and the final on finals week. Each exam will be 2 hours. The midterm will cover the material in classes 1-13, and the final is cumulative and will cover the material in classes 1-27. You are allowed to use a single double-sided A4 cheat sheet on each exam.

## Quizzes

**There will be several quizzes each class.** You will respond to the quizzes using Poll Everywhere. You must verify that you are **registered to PollEv with your @virginia.edu** address (and **not** the @comm.virginia.edu address). Failing to do so will not allow me to receive your answers.

## Class participation

Class participation is expected and encouraged. You will be evaluated on the level of participation, attentiveness, and quality of your contributions to class discussion. **Low-quality contribution will be awarded a higher evaluation** than no contribution. You are expected to be responsible, respect each other and each other's time, and show an adequate and professional demeanor. The use of electronic devices during class, unless merited by class, is disrespectful.

## Study groups

**You will form study groups of 4 students.** The four students can be from any of the same class sections (i.e., sections 4,5,6). Assignment 10 (valuation project) will be submitted as a group. You are **allowed and encouraged to consult your study group** (but only them) when solving assignments 1-9. Nevertheless, each student will submit their own answers for assignments 1-9. A representative of each group **will email me a list of group members before the first assignment is due.**

## Grading

This class is fully curved. The grades for each assignment, the midterm, the final, and the quizzes will all be curved to a mean of 80 and a maximum of 100, before any bonuses are added on top. Each home assignment (1-9) comprises 3% of the grade (27% total); the final project comprises 8% of the grade; each quiz comprises 0.3% of the grade (15% total); the midterm and final comprise 20% of the grade each; and my subjective participation assessment, which will distribute  $N(80,10^2)$ , will make up the remaining 10% of the grade.

That said, the GPA in this class has been higher than the global McIntire GPA in each previous year I taught this class, and I intend it to remain that way. **Don't panic.**



## Academic Integrity

The McIntire School of Commerce relies upon and cherishes its community of trust. We endorse and uphold the University's Honor principle that students will not lie, cheat, or steal, nor shall they tolerate those who do. We recognize that even one honor infraction can destroy an exemplary reputation that took years to build. Acting in a manner consistent with the principles of honor benefits every member of the community while enrolled in the McIntire School and in the future.

We trust every McIntire student to comply fully with all provisions of the UVa Honor System. By enrolling in this course, you agree to abide by and uphold the Honor System of the University of Virginia, as well as the following policies:

- All home assignments must be pledged. You may however consult with the three other members of your study group.
- Both exams must be pledged. You may not consult with other people, both on- and off-line.

All suspected violations will be forwarded to the Honor Committee, and, at my discretion, you may receive an immediate zero on that assignment regardless of any action taken by the Honor Committee.

If you have a question about what is or is not permitted on an assignment, you should clarify your question with me prior to doing the work.

If you believe you may have committed an Honor Offense, you may wish to file a Conscientious Retraction ("CR") by calling the Honor Offices at (434) 924-7602. For your retraction to be considered valid, it must, among other things, be filed with the Honor Committee before you are aware that the Act in question has come under suspicion by anyone. More information can be found at [www.virginia.edu/honor](http://www.virginia.edu/honor).

If you have questions regarding the course honor policy, please contact your professor. If you have questions about your Honor System or would like to report your suspicion of an Honor offense, please contact your McIntire Honor Representatives.

## SDAC accommodations

UVA is committed to creating a learning environment that meets the needs of its diverse student body. If you anticipate or experience any barriers to learning in this course, please feel welcome to discuss your concerns with your faculty. If you have a disability, or think you may have a disability, you may also want to meet with the Student Disability Access Center (SDAC), to request an official accommodation. You can find more information about SDAC at [sdac.studenthealth.virginia.edu](http://sdac.studenthealth.virginia.edu). If you have already been approved for accommodations through SDAC, please make sure to send me your accommodation letter and meet with me so we can develop an implementation plan together.

## Wellbeing resources

The McIntire School of Commerce proudly serves as a safe space for its students and aims to promote their wellbeing. If you are feeling overwhelmed, stressed, or isolated, there are many individuals here who are ready and wanting to help. If you wish, you can make an appointment with me and come to my office to talk in private. The faculty members at the Student Services Office, located on the third floor, are also readily accessible to talk during walk-in hours or through setting up an appointment. Alternatively, there are also other University of Virginia resources available.

The Student Health Center offers Counseling and Psychological Services (CAPS) for its students. Call 434-243-5150 (or 434-972-7004 for after hours and weekend crisis assistance) to get started and schedule an appointment. If you prefer to speak anonymously and confidentially over the phone, call Madison House's HELP Line at any hour of any day: 434-295-8255.

If you or someone you know is struggling with gender, sexual, or domestic violence, there are many community and University of Virginia resources available. The Office of the Dean of Students, Sexual Assault Resource Agency (SARA), Shelter for Help in Emergency (SHE), and UVA Women's Center are ready and eager to help. Contact the Director of Sexual and Domestic Violence Services at 434-982-2774.

## Inclusion and respect

The McIntire School is committed to creating an inclusive classroom, that is free of bias, discrimination, and harassment, in the classroom and in the broader university community. We believe an inclusive classroom is an environment where all students feel supported intellectually and academically and feel a sense of belonging regardless of identity, learning preferences, or background. Honesty, listening for understanding, a willingness to share your ideas, and respect for self and others are basic guidelines that can help create a positive learning environment.

Even with our best intentions and efforts, issues or comments may surface in class that can cause offense or be hurtful. We desire to address issues as they arise in a respectful manner. If you are concerned about anything said in class or raised in the readings, you are encouraged to speak with me directly or you may contact your program advisor in the [Office of Student Services](#) or the McIntire [Office of Diversity, Equity and Inclusion](#). Additionally, the University's [Just Report It](#) system is available to report any act of alleged prohibited conduct as well as bias and other forms of misconduct. Working together, we can create a positive learning environment for all members of our community.