USC Marshall School of Business

Marshall IBEAR MBA Program

Term Two 2016

GSBA548 – Corporate Finance (Revised Syllabus)

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1. **COURSE OBJECTIVES**

The main aim of this course is to enable you to apply the theoretical concepts in finance to problems in the area of corporate finance with all the complexities that the real world entails.

By the end of the course, students should be able to:

1. Have a good understanding of the theory and practice of corporate finance.
2. Be able to use financial tools to solve a broad range of real-world situations.
3. Know how companies can create, manage and sustain shareholder value.
4. Know the best corporate governance practices.
5. Be able to formulate a corporate policy based on best practices for making investment, capital structure and dividend decisions.
6. To assess the gap between current practices and financial theory.

**B. REQUIRED MATERIALS**

1. Textbook: Corporate Finance by Ross, Westerfield, Jaffe, 11th ed., ISBN 978-0-07-786175-9, publisher: McGraw-Hill.
2. Financial calculator capable of performing discounted cash flows (please bring calculator to each class). It is the student’s responsibility to learn the functions of their particular calculator. Appendix C of the text (pages 978-981) discusses the use of the HP 10B and TI BA II Plus financial calculators.

**C. CLASS MATERIALS**

Class materials will be posted on Blackboard. These include PowerPoint Lecture Notes, Problems and Solutions.

**D. GRADING SUMMARY**

Final grades represent how you perform in class relative to other students.

 Course Grade Breakdown

 Final Exam 35%

 Quizzes (4) 20%

 Group Project 25%

Peer Evaluation 10%

 Class Participation 10%

 100%

*Final Exam and Quizzes*

Final exam and Quizzes will be open-notes, open book. You may use any handouts provided by the professor and any materials such as notes or outlines written and prepared exclusively by you. During the exam, you may not use any other materials, written, digital, or recorded. No laptops or cell phones can be used during the exam. Each quiz is worth 5 points. Quizzes will consist of 5 multiple choice questions. Quizzes will cover material that was covered in prior classes. You should bring a calculator to perform calculations.

Peer Evaluation on Group Project

Group Projects provide a valuable learning experience – how to work effectively and efficiently in groups (a common practice in Corporate America), learning from others, and sharpening a student’s ability to communicate to others. However, human nature being what it is, some students are tempted to relax and let others carry their load. In order to provide an incentive for all students to make maximum contributions to the team project, students will be asked to grade each team member’s contributions on a 10-point scale.

This evaluation is to be submitted by email to the Instructor before the last day of classes. No form will be provided. Simply list each person on the team and your score for the student. *Any team member who does not email his (her) evaluation of team members will be deemed to have given a 10-point score to each member of the team.*

Class Participation

Attendance and participation are essential for success in this course.

You may earn up to 10 points for class participation (i.e.,10% of your final grade). Each of you will be awarded these 10 points on the first day of class. Your objective will be to keep these 10 points throughout the semester. This requires attendance at classes and your participation in class discussion of the assigned chapters of the text including the assigned concept questions.

**E. ABOUT THE INSTRUCTOR**

Lloyd Levitin is a Professor of Clinical Finance and Business Economics at Marshall. He was Executive Vice President and CFO of Pacific Enterprises from 1982-1995 (now Sempra Energy), and was actively involved in the firm’s diversification program which included numerous acquisitions. He testified as an expert on utility diversification to the Senate Finance Committee of the U.S. Congress and has been a consultant for JurEcon, Inc., a nationwide consulting and research firm for management and counsel. He has a MBA from Wharton and a JD from University of San Francisco. He practiced as a CPA after receiving his MBA, and as an attorney after receiving his JD.

**F. TEXT CONCEPT QUESTIONS AND PROBLEMS**

Selected concept questions at the end of each chapter have been assigned as homework. You should be prepared to discuss them in class. You are not required to hand them in to the instructor.

Selected questions and problems at the end of each chapter will be worked out in class. You are not required to prepare solutions before class. These questions and problems are on page 6 of this syllabus.

**G. RETENTION OF GRADED COURSEWORK**

Final exams and all other graded work which affected the course grade will be retained for one year after the end of the course if the graded work has not been returned to the student; i.e., if I returned a graded paper to you, it is your responsibility to file it, not mine.

**H. TECHNOLOGY POLICY**

Laptop and Internet usage is not permitted during academic or professional sessions unless otherwise stated. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted during academic or professional sessions. ANY e-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops,

I-pods) must be completely turned off during class time. No student may record any lecture, class discussion or meeting with me without my prior express written permission. I reserve all rights, including copyright, to my lectures, course syllabi and related materials, including summaries, prior exams and all supplementary course materials available to the students enrolled in my class.

1. **STATEMENT FOR STUDENTS WITH DISABILITIES**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

**J. STATEMENT ON ACADEMIC INTEGRITY**

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one’s own academic work from misuse by others as well as to avoid using another’s work as one’s own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. <http://www.usc.edu/dept/publications/SCAMPUS/gov/>

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/> Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

**K. EMERGENCY PREPAREDNESS/COURSE CONTINUITY**

In case of emergency, and travel to campus is difficult, USC executive leadership will announce an electronic way for instructors to teach students in their residence halls or homes using a combination of Blackboard, teleconferencing, and other technologies. Instructors should be prepared to assign students a "Plan B" project that can be completed at a distance. For additional information about maintaining your classes in an emergency please access: <http://cst.usc.edu/services/emergencyprep.html>

**L. OTHER**

The material presented and the classroom discussions are not intended to be financial advice to students in connection with any issue(s) they or others may have. If students have a financial matter, they are advised to promptly consult an experienced professional who can fully review the facts and advise them accordingly.

**COURSE READINGS, CLASS SESSIONS, AND ASSIGNMENT SCHEDULE**

|  |  |  |
| --- | --- | --- |
| **CLASS** **DATES** | **LECTURE** **TOPICS** | **ASSIGNMENTS** |
| **PART I – OVERVIEW** |  |
| 1. 10/19
 | * Introduction to Corporate Finance;
 | Chapters 1and 2 (to pg. 32)Chapter 1 Concept Questions (CQ) #3, 4, 6Chapter 2, CQ #6-9 |
| 1. 10/21
 | * Evaluation of Financial Performance
 | Chapter 3, and CQ #2, 3, 8, 9 |
| **PART II – INVESTMENT DECISION** |  |
| 3. 10/24 | Quiz 1 * Discounted Cash Flow Valuation
 | Chapter 4, and CQ #6-10 |
| 4. 10/26 | * Net Present Value Rule
 | Chapter 5, and CQ #3, 9 Chapter 6 to page 181, and CQ #2, 3 |
| 5. 10/28 | * Bond Valuation
 | Chapter 8, and CQ #1, 2, 5, 7, 11, 12, 17 |
| 6. 10/31 |  Quiz 2* Stock Valuation
 | Chapter 9, and CQ # 1, 2, 6, 7, 8, 9, 10 |
| 7. 11/7 | * Risk and Return
* The Capital Asset Pricing Model
 | Chapter 10, and CQ #3, 4, 5, 8, 9Chapter 11, and CQ #1, 2, 4, 6, 7, 8, 9, 10 |
| 8. 11/9 |  Cost of Capital | Chapter 13 to page 420, andCQ #1-8, 10 |
| 9. 11/14 |  Quiz 3* Mergers and Acquisitions
 | Chapter 29, and CQ #1, 2, 3, 5, 6, 8, 9, 10 |
| **PART III – CAPITAL STRUCTURE DECISION** |  |
| 10. 11/16 | * Capital Structure
 | Chapter 15, and CQ #1-15Chapter 16, and CQ #4-8, 10 |
| 11. 11/28 |  Quiz 4* Highly Levered Capital Structure
 | Chapter 17, and CQ #1, 3, 4, 5, 10 |
| **PART IV – DIVIDEND DECISION** |  |
| 12. 11/30 | * Dividends and Other Payouts
 | Chapter 19, and CQ #2-4, 7- 10, 14, 15 |
| **PART V – SPECIAL TOPICS** |  |
| 13. 12/5 | * Review of Course
 |  |
| **PART VI – REVIEW** |
| 14. 12/7 | * Practice Problems for Final Exam
 | GROUP PROJECT DUE |
|  12/12 | Final Exam 9:00 – 12:00 | Be prepared, calm, cool and collected |

**Questions And Problems To Be Worked Out In Class**

Chapter 3

 Problems 1, 4, 5, 6, 7, 14

Chapter 4

 Problems #2, 3, 11, 12, 14, 25, 32, 33

Chapter 5

 Problems #1, 23

Chapter 6

 Problems #1, 3, 4, 7, 20

Chapter 8

 Problems #1, 2, 3, 10, 14, 15, 32

Chapter 9

 Problems #1, 2, 3, 4, 5, 9, 12, 15

Chapter 10

 Problems #1, 2, 12, 14

Chapter 11

 Problems #2, 10, 11, 12, 13, 20

Chapter 13

 Problems #1, 2, 5, 6, 8, 12

Chapter 15

 Problems 7, 12

Chapter 16

 Problems #13, 14, 15, 17, 18, 19

Chapter 17

 Problem #1

Chapter 19

 Problems #4, 5, 6

Chapter 29

 Problems #1, 5, 8, 9, 12

**GROUP PROJECT**

Due Date: 12/7/16

Assignment

*Group Project*

This project provides an opportunity to get hands-on experience applying corporate finance theory to real firms.

You have become CFO of Home Depot. The CEO has asked you to provide a report on the subjects of value creation, capital structure, and dividend policy. The details of the CEO’s request follows:

Section I. Value Creation. The CEO has asked you to provide a report on whether in the last 5 years Home Depot (HD) has created value for its shareholders and how HD’s performance in creating value compares to that of Lowe’s. You have decided to prepare your analysis from two different perspectives: (1) from perspective of management, and (2) from perspective of shareholders. Your report should contain (1) an executive summary, (2) a discussion and analysis section, and (3) exhibits.

Section II. Capital Structure. The CEO has asked you for a report as to whether you recommend any changes to HD’s capital structure as to (1) the percentage mix of debt and equity or to (2) the type of financing instruments used to raise debt. If not, explain why you believe HD has the right mix of debt and equity and have chosen the right kind of debt to fund operations.

The CEO also asked you to perform an evaluation of Lowe’s capital structure and comment on any significant differences in capital structure policy between HD and Lowe’s.

Your report should contain (1) an executive summary, (2) a discussion and analysis section, and (3) exhibits.

Section III. Dividend Policy. The CEO asked you to analyze HD’s payout policy (dividends and/or stock repurchases), and whether you recommend any changes. And, if so, why? If not, explain why not. The CEO also asked you to perform an evaluation of Lowe’s payout policy and comment on any differences in payout policy between HD and Lowe’s. Your report should contain (1) an executive summary, (2) a discussion and analysis section, and (3) exhibits.