This course concerns financial decisions made by businesses, the evaluation of prospective investments, and the funding of those investments. We will study the fundamental principles underlying those decisions and the tools used to apply them. Data-based valuation assignments and cases offer an opportunity for detailed practice. By the end of the semester, students should have a good understanding of the basics of capital budgeting, stock and bond valuation, optimal portfolio choice, the pricing of risk, and capital structure. Special topics include introductions to valuation across national borders and valuation using option pricing techniques. Tools and applications are enhanced with background such as the economics of interest rates, current issues in monetary policy, and the meaning and implications of behavioral finance.

The class is lecture format, with questions and discussion encouraged. Several spreadsheet-based problems and one case will be assigned. Each student will individually upload a solution to the class website at canvas.cornell.edu prior to the related discussion in class. There will be two exams, one during class time at about the middle of the semester and the other during final exam week at the time assigned by the university registrar. There are one or two problem sets for each section of the class, also to be uploaded to the class website, with deadlines indicated below. I also provide suggestions for practice work from the end-of-chapter questions.

Because this is an introductory course, each student should understand all of the tools and ideas presented in the class. Therefore, all work that will be graded as the basis for the final letter grade must be individual rather than done in groups. Because this is a graduate level course, personal initiative in completing reading, assignments, cases, suggested practice questions, and online practice questions is essential.

Course Materials


This package consists of online access to resources including the fifth edition of the textbook itself. Once electronic access is purchased from the publisher’s website, a loose-leaf version of the text can also be ordered from MyLab if desired. Visit: https://mlm.pearson.com/enrollment/bailey28608 or follow the instructions on the last page of this course description.

The course packet (available through the class website) contains the Groupe Ariel case. Lecture slides (scrubbed of potential copyright problems) are posted on the Canvas website of the course.

Schedule of Topics, Readings, and Activities

In the schedule below, there are nine topics with dates assigned to each. The range of dates allocated to each of the topics, the dates that assignments are due, and the dates of exams are firm.
1. Introduction and Tools

22 August  (Monday)
24 August  (Wednesday)
29 August  (Monday)
31 August  (Wednesday)
7 September  (Wednesday)

a. Arbitrage and Financial Decision-Making
b. The Time Value of Money
c. Interest Rates: Nominal, Effective Quotes and Adjustments
d. Background: the economics of interest rates and the term structure; quantitative easing

Skim most of Chapter 3 BDeM, except read Sections 3.4 and 3.5
Read Chapter 4 BDeM [suggested problems: 13, 14, 25, 29, 33, 34, 42, 50]
Read Chapter 5 BDeM, especially Section 5.1 except for 5.4 [suggested problems: 22, 30, 31]

Assignment (section questions): Section 1a questions [DUE 31 August (Wednesday) 11:40 AM]
Assignment (section questions): Section 1b questions [DUE 12 September (Monday) 11:40 AM]

2. Basic Valuation I

12 September (Monday)
14 September (Wednesday)
19 September (Monday)
21 September (Wednesday)
26 September (Monday)

a. Valuing Projects: Investment Decision Rules
b. Fundamentals of Capital Budgeting
c. Valuing Bonds

Read Chapter 7 BDeM, especially carefully Sections 7.1 and 7.2 [suggested problems: 6, 16, Data Case]
Read Sections 8.1 and 8.2 of Chapter 8 BDeM, Skim 8.3 and 8.4 [suggested problems: 5, 10, 14]
Read Chapter 6 BDeM, especially Sections 6.1, 6.2, and 6.3 [suggested problems: 3, 13, 25]
Read Section 5.4 of Chapter 5 BDeM [suggested problems: 33, 34]

Assignment (section questions): Section 2a questions [DUE 14 September (Wednesday) 11:40 AM]
Assignment (section questions): Section 2b questions [DUE 19 September (Monday) 11:40 AM]
Assignment (spreadsheet): Tobacco Bond valuation [DUE 26 September (Monday) 11:40 AM]
Assignment (section questions): Section 2c questions [DUE 28 September (Wednesday) 11:40 AM]

3. Basic Valuation II
28 September (Wednesday)
3 October (Monday)
5 October (Wednesday)

a. Valuing Stocks with the Dividend-Discount Model
b. Total Payout and Free Cash Flow Valuation Model
c. Background: how does a stock market work; shorting securities

Read carefully Chapter 9 BDeM, especially Sections 9.1, 9.2, 9.3, and 9.4 [suggested problems: 19, 22, 25]

Assignment (spreadsheet): BP Prudhoe Bay Oil Trust Part I [DUE 5 October (Wednesday) 11:40 AM]

Assignment (section questions): Section 3 questions [DUE 12 October (Wednesday) 11:40 AM]

4. Risk and Return I

12 October (Wednesday)
17 October (Monday)

a. Capital Markets and the Pricing of Risk
b. Optimal Portfolio Choice I: Choosing and Efficient Portfolio

Read Chapter 10 BDeM [suggested problems: 12, 13, 14, 15]
Read Chapter 11 BDeM, carefully and only Sections 11.1 to 11.4 [suggested problems: 5, 6, 7]

Assignment (spreadsheet): Efficient Frontier spreadsheet [DUE 17 October (Monday) 11:40 AM]

Assignment (section questions): Section 4 questions [DUE 24 October (Monday) 11:40 AM]

4b. Midterm exam [ONLINE 19 October (Wednesday) 11:40 AM to 12:55 PM; open book]

5. Risk and Return II

24 October (Monday)
26 October (Wednesday)
31 October (Monday)
2 November (Wednesday)

a. Optimal Portfolio Choice II: The Capital Asset Pricing Model
b. Estimating the Cost of Capital
c. Capital Market Efficiency
d. Background: Behavioral finance
e. International valuation

Read Chapter 11 BDeM, Sections 11.6, 11.7, and 11.8 [suggested problems: 49]
Read Chapter 12 BDeM, especially carefully Sections 12.1 to 12.4 [suggested problems: 11, 12]
Skim Chapter 13 BDeM, focusing on Sections 13.1, 13.2, 13.6, and 13.7 [suggested problems: 2]
Read Chapter 13 BDeM, Sections 13.5 and 13.6 (efficient markets)
Read Chapter 13 BDeM, Section 13.3 and 13.4 (behavioral finance)
Read Chapter 30 BDeM, Section 30.3 (especially 1039 to 1046)
Read Chapter 31 BDeM, Sections 31.1, 31.2, 31.4, 31.5 [suggested problems: 1, 2, 3, 5]

Assignment (spreadsheet): BP Prudhoe Bay Oil Trust Part II [DUE 26 October (Wednesday) 11:40 AM]

Assignment (case): Groupe Ariel case [DUE 2 November (Wednesday) 11:40 AM]

Assignment (section questions): Section 5 questions [DUE 7 November (Monday) 11:40 AM]


7 November (Monday)
9 November (Wednesday)

a. Leverage, Arbitrage and Firm Value
b. Debt and Taxes
c. Financial Distress, Agency Problems and Information
d. Distributions to Shareholders
e. Taxes on Dividends and Capital Gains
f. Signaling with Payout Policy
g. Background: what banks do and how they can fail

Read carefully Chapter 14 BDeM, especially Sections 14.1 to 14.3 [suggested problems: 5, 9]
Read Chapter 15 BDeM, especially Sections 15.1 and 15.2 [suggested problems: 5, 7]
Skim Chapters 16 BDeM, mostly Sections 16.1 and 16.3 [suggested problems: 1]
Read Chapter 17 BDeM, especially Sections 17.1 to 17.3 [suggested problems: 11]

Assignment (section questions): Section 6 questions [DUE 14 November (Monday) 11:40 AM]

7. Capital Budgeting Decisions, Valuation, and Leverage

14 November (Monday)
16 November (Wednesday)

a. WACC, APV, Free Cash Flow to Equity Approaches
b. Project-Based Costs of Capital
c. Multiples-based Valuation using Comparables
d. Examples and problems

Read Chapter 18 BDeM, especially Sections 18.1 to 18.4, skim 18.5 [suggested problems: 5, 14]
Skim Chapter 19 BDeM, Sections 19.3, 19.4 and 19.5 useful for valuation analysis

Assignment (section questions): Section 7 questions [DUE 21 November (Monday) 11:40 AM]

8. An introduction to derivatives and real options
21 November (Monday)
28 November (Monday)
30 November (Wednesday)

a. Put and call basics
b. Binomial, Black Scholes, other models; implementation
c. Real options

Read Chapter 20 BDeM, Sections 20.1 to 20.4 only [suggested problems: 3, 6 - 9]
Read Chapter 21 BDeM, Sections 21.1 to 21.2 only [suggested problems: 1 - 2, 11 - 12]
Read Chapter 22 BDeM, Sections 22.1, 22.2, and especially 22.3 only [suggested problems: 18]

Assignment (section questions): Section 8 questions [DUE 5 December (Monday) 11:59 PM]

9. Current events viewed with concepts from this class

5 December (Monday)

9b. Final exam: ONLINE, open book, and ONLY AT TIME SPECIFIED BY THE UNIVERSITY REGISTRAR. See https://registrar.cornell.edu. I will post on the class website when known.

Assignments

Cases require detailed analysis starting with a brief executive summary with the issue and the major recommendations. It then includes an introduction which illustrates the problem faced by the firm and its background, a main section that provides details and evaluates alternatives, and a conclusion with specific recommendations. For each case, I will provide a few questions and suggestions to help with analysis. I expect the reports to be double-spaced and 12-point font. Supporting tables, spreadsheets and graphs (the exhibits) are included at the end of the document. The exhibits should be referred to in the text of the paper as they are needed to support the argument being made. Exhibits that are not needed should not be included and all exhibits should be referenced in the paper. The case analysis must be submitted electronically on the class website. Format should be Word or pdf.

Spreadsheet assignment solutions can be uploaded in a more compact form. The bulk of the assignment is computations, that is, additions to the basic data spreadsheet I will provide. Any discussion or answers to specific questions can be inserted into the body of a spreadsheet as text entered into cells or as text boxes.

Section questions are available on the class website. The purpose of the homework problems is to practice some of the tools we learn in a setting other than an exam. The problems also serve as practice for the format that will be used on exams. Each student inputs answers following the “quiz” format on Canvas. Answers must be typed or pasted into the Canvas website. File uploads are not accepted and will not be read. The instructor’s solution will be available on the class website after the due date.

Additional details for case, spreadsheet, and section questions assignments are as follows.

1. Files time-stamped by the class website after the date and time due receive no credit.
2. Each file must be named with course number, assignment identifier, and student identifier (family name then given name). For example, “NCC5560_Groupe_Ariel_JOHNSON_Boris.doc” is the filename for the solution to the Groupe Ariel case submitted by Boris Johnson. The “Comment” box (which appears in the uploading dialog box) must also contain this filename. Use the “Submit Assignment” button and follow the instructions to upload your file.

3. The upload consists of a single complete Word, Excel, or pdf file only. For assignments that include numerical exhibits, either copy tables from Excel into Word or insert text into the Excel file, or put everything together into a single pdf file. No zipped files or other formats will be accepted.

4. I will not accept or acknowledge any file sent to me by email or in hard copy form.

5. Full credit will be earned for a complete and careful solution, even if the details are not perfect.

I present a solution and lead discussion of each case or spreadsheet in class on the day it is due. Section questions will not be discussed in class but solutions will be posted.

**Professional Behavior**

Disruptions to the learning environment in class will be judged by the instructor, and final grades will be adjusted accordingly. Disruptive activities include but are not limited to: the use of laptop computers, tablet computers, smart phones, and other mobile phones for purposes unrelated to the material being covered in the particular class session; ringing phones; private conversations that do not cease when class begins; private conversations initiated once class is underway. Cheating and other violations of academic integrity will be addressed in the final letter grade and with formal administrative proceedings as mandated by Johnson School and other Cornell regulations. Name cards should be brought to every class and displayed.

**Final Letter Grades**

A rough guide to how final grades will be determined is 25% for the first exam, 30% for spreadsheet and case assignments, 10% for the homework questions, 25% for the final exam, and 10% for class participation.

The instructor reserves the right to determine the final letter grade assigned to each student.

**Office Hours**

All office hours or other meetings with the instructor will be held remotely using Zoom. Please email me to set a time. At busy times such as prior to exams, I will set up virtual office hours in Zoom on Canvas.

The teaching assistants for this course for Fall 2022 are Sasha Paikin (snp36@cornell.edu) and Gjini Spanca (ls828@cornell.edu). Once the semester is underway, they will post contact information and office hour details on www.canvas.com.

**Accommodations**

Please consult https://sds.cornell.edu/accommodations-services if you need extra time for exams.
**Warnings**

If you register for this class, you agree to accept all course requirements, dates, deadlines, and other procedures outlined in this syllabus and in class. There will be no discussions, pleas, or arguments about the administration of the course under any circumstances. There will be no changes or exceptions to the course requirements, due dates, or exam dates under any circumstances except when mandated by Johnson School or University rules as explained to the instructor by a dean or degree program director.

All students must adhere strictly to the Johnson School Honor Code and other university rules and regulations regarding academic integrity. In particular, I reserve the right to check the files uploaded to the class website to ensure that all work is done individually and there is no plagiarism from the internet or other sources.

Note that course materials (those posted on the class website, those contained in the course packet, and those distributed in class including exams, exam solutions, and spreadsheet solutions) are intellectual property. Students are not permitted to buy, sell, or share any of my course materials. Students are not permitted to post my course materials to commercial websites or share my course materials in any way. Any such behavior is unauthorized and constitutes academic misconduct.

The Johnson School Registrar administers all information, requests, and decisions about enrollment. I do not monitor or participate in these activities in any way. I do not determine the class size, room assignment, or resolution of the waiting list. **I DO NOT SIGN ADD OR DROP FORMS.**

**Acknowledgment**

Preparation of this course has benefited tremendously from advice, suggestions, and teaching materials generously offered by my colleague Andrew Karolyi.
Addendum: details regarding online teaching and other online activities

1. If any lectures go online due to university requirements, weather emergencies, or other contingencies, class activities will occur on Zoom accessed from within Canvas.

2. All exams will be administered online via Zoom on the Canvas system. You are responsible for having access to reliable internet service so you can complete exams without technical problems. For example, the wifi on the Cornell campus is very reliable. Alternatively, consider the combination of cable company internet service and a wifi hotspot using phone company service as backup. I will not reschedule an exam unless there is a documented general failure in Cornell’s campus internet system.

3. While the class is lecture format, questions are encouraged. If you have a question, use Zoom’s “raise your hand” function.

4. Zoom’s chat function will be disabled during online lectures.

5. Zoom’s chat function will be enabled during online exams so I can take your questions.

6. I recommend that you leave your video camera on during lectures. I would like to know that you are there, particularly if I want to call on you. There will be no aggressive cold-calling in this class but, once I get to know you, I may want your participation in the form of a comment or opinion.

7. I will insert a five minute break into any 75 minute lecture that is delivered online.
Student Registration Instructions

To register for NCC 5560-001 Managerial Finance:

1. Go to https://mlm.pearson.com/enrollment/bailey28608
2. Sign in with your Pearson student account or create your account.
   For Instructors creating a Student account, do not use your instructor credentials.
3. Select any available access option, if asked.
   » Enter a prepaid access code that came with your textbook or from the bookstore.
   » Buy instant access using a credit card or PayPal.
   » Select Get temporary access without payment for 14 days.
4. Select Go to my course.
5. Select NCC 5560-001 Managerial Finance from My Courses.

If you contact Pearson Support, give them the course ID: bailey28608

To sign in later:

1. Go to https://mlm.pearson.com
2. Sign in with the same Pearson account you used before.
3. Select NCC 5560-001 Managerial Finance from My Courses.