

University of Waterloo
Department of Economics
ECON 372: Business Finance 2 (Section 001)
Winter 2020
Class Time: M, W, F 11:30 am - 12:20 pm
Classroom: DWE 1501

Instructor Information

Instructor: Predrag Rajsic
Office: HH 162
Office Phone: 519-888-4567 ext. 30174 (please do not leave voice mails)
Office Hours: M, W, F 9:30 am – 10:20 am or by appointment
Email: prajsic@uwaterloo.ca

Notes on office hours or contacting instructor

Office hours for the Final Exam Period will be announced in March.
If a student is not able to meet during office hours, I am open to arranging a mutually convenient appointment via email.
When sending email to your instructor, always use your University of Waterloo email account. **“ECON 372” must appear in the subject line and the message must include your full name and student ID number.**

Where to find this course outline:

This course outline is available at two locations for the duration of the term:

- Department of Economics website
<https://uwaterloo.ca/economics/undergraduate/courses/outlines-0>
- LEARN web site (requires UW user id and password) <http://learn.uwaterloo.ca>

Course Description

The purpose of this course is to provide students with advanced topics in corporate finance and their applications. The key concepts and topics to be covered include security valuation, risk and return, risk diversification, capital asset pricing model (CAPM), investment performance measurement, and financial derivatives. Students will learn how to apply these concepts to real world problems using various examples and case studies. The course deepens the general framework of financial landscape offered in ECON 371 by discussing the role of financial instruments and institutions in the economy. This course will further develop the analysis of firms’ investment and financing decisions. The goal is to develop a deeper understanding of financial markets and investment strategies.

Course Goals and Learning Outcomes

The objectives of this course are for students to:

- understand the need for firms and individuals to make financial decisions and together work towards overcoming the universal problem of scarcity;
- appreciate the relevance of finance in a changing world;
- develop the capacity to apply critical thinking to finance issues.

Upon completion of this course, students should be able to:

- explain why maximizing market value is the logical financial goal of the corporation.
- calculate and interpret some key measures of firm performance.
- explain why diversification reduces risk.
- distinguish between unique risk, which can be diversified away, and market risk, which cannot.
- Understand the Capital Asset Pricing Model.
- Describe how options markets can be used to manage risk.
- Explain how to raise equity capital for private and public companies.
- Identify different types of debt financing available to a firm.
- Understand why investment decisions, rather than financing decisions, fundamentally determine the value and cost of capital of the firm.
- Understand why the way in which corporations distribute cash flow does not affect value.
- Create pro forma income statements and balance sheets.
- Contrast the different instruments available to a financial manager for investing cash balances.

Textbook

- Jonathan Berk, Peter Demarzo, Jarrad Harford, David A. Stangeland, Andras Marosi. Fundamentals of Corporate Finance, Third Canadian Edition Plus MyLab Finance -- Access Card Package, 3/E
- The textbook is available from the UW BookStore.
- A copy of the textbook edition is on reserve at the Dana Porter Library.
- The use of MyEconLab tests is optional. You may use them as a practice tool, but they will not be used for grading purposes.

Examinations in this course are based on the material contained in the assigned textbook readings and presented as lecture content (which are strong complements, not substitutes—see Policy on Class Attendance).

Notes from the BookStore

- The UW BookStore has the following editions of the same textbook package (buy only one):
 1. Hardcover and MyLab – ISBN: 9780135418178 - \$166.20
 2. Loose leaf and MyLab – ISBN: 9780135906552 - \$110.00
 3. MyLab and eText – ISBN: 9780135219508 - \$95.00

Readings Available on LEARN

I will be posting the course lecture slides on LEARN before each class. The course lectures will closely follow the course textbook in terms of content and progression – but not in terms of the style of presentation. It is your responsibility to keep yourself current with the assigned textbook readings as well as maintaining an understanding of the lecture content.

- Any additional course materials (news, updates, announcements) will be posted on the LEARN web site <http://learn.uwaterloo.ca>
- Online Review Quizzes (see below under *Review Quizzes*)
- The LEARN site is down occasionally. Save the course materials to your computer as soon as they are posted. Always be prepared!
- Students writing tests and exams are responsible to save course materials on LEARN before the access to their courses is shut off (normally on the first day of classes of the next term).

Course Requirements and Assessment

The course grade will be based on review quizzes, two midterm exams, an op-ed assignment, and a final examination which will be held during the Official Examination Schedule. There will also be a bonus grade up to 2% for participation. The breakdown is as follows:

Assessment	Date of Evaluation (if known)	Weighting
Review Quizzes	TBA	5%
Midterm 1	February 7, in-class	20% or 25%
Midterm 2	March 13, in-class	20% or 25%
Op-Ed Assignment Proposal	February 14	2%
Op-Ed Assignment Final Draft	April 3	8%
Bonus for participation ¹		2%
Final Exam	TBA (April 8 - 25)	40%
Total		100%

Review Quizzes

- The purpose of the review quizzes is to help students identify and understand key concepts covered in the lectures and in the textbook.
- The format of the quizzes will mainly be multiple-choice questions, but there may also be some true-false questions, or short answer questions.
- The quizzes will be done online through the LEARN system.
- There will be a limited, but a reasonably long, time window set up in LEARN during which each quiz will be available for completion. There are two attempts for each quiz available and the better attempt counts.
- Quizzes that are not submitted on time will automatically receive a grade of zero.

Participation

¹ If a student's Total grade, including participation, is more than 100%, the participation grade is applied up to the value that produces the Total grade of 100%. Otherwise, the full participation grade is applied.

Participation is recommended, and it will be rewarded through bonus marks up to the total of two percentage points (2%) that will be added to the students' final grade. Participation will be monitored through an online tool Learning Catalytics. The primary purpose of this tool in this class is to enhance the feedback mechanism between students and the instructor so that we can identify areas that may require special focus. You will be able to submit answers to in-class questions using Apple or Android smartphones and tablets, laptops, or through text message. Your participation grade will **not** depend on the correctness of your answers to the in-class questions.

Learning Catalytics

We will be using the Learning Catalytics classroom response system in class. Included with the purchase of a new text is a subscription to Learning Catalytics (through MyEconLab), which is a web-based student response system - please bring a smart device (laptop, tablet, or smart phone) or a text-capable cell phone to class.

If you do not have a new text or code to MyEconLab, codes can be purchased separately through the bookstore as it is the cheapest option - **\$17.25 CND for 12 months**. Through the Learning Catalytics website the cost is \$12 USD (6 months) or \$20 USD (12 months). To register please visit www.LearningCatalytics.com.

Please reference the step-by-step login document for detailed instructions. Under the Training & Support tab, you will find helpful information including technical support.

Please email the Rep Kyle if you need anything at all - kyle.monotiuk@pearsoned.com.

Midterms and Final Exam

The format for the midterms and the final exam will be mix multiple-choice questions, short answer questions, and long answer questions.

- The midterm test will be written during the class time.
- Midterm marks will be posted on LEARN.
- The final exam period for the Winter Term 2020 is April 8 - 25 inclusive. Students are expected to be available during this time. Travel plans are not acceptable grounds for granting an alternative final examination time. <http://uwaterloo.ca/registrar/final-examinations/examination-regulations-and-related-matters>
- The exact date and time for the final exam for this class will be determined by the Registrar's Office. The exam schedule is posted online, will be announced in class, and posted on LEARN.
- Only the Registrar's Office can issue final grades.

This grading scheme will be implemented strictly for all students in the course (with the exception of verified illnesses – see below).

Op-Ed Assignment

One of the objectives of this course is the development of communication skills. The Op-Ed Assignment is supposed to incorporate theoretical aspects of the course that are communicated to a general audience with some basic background and interest in finance. The assignment should be no more than 750 words, and the style should be punchy but also have a firm basis in the course material. For a good example of guidelines for an effective Op-Ed, please take a look at the Financial Times guidelines: <https://www.ft.com/content/b927be8a-198a-11e5-8201-cbdb03d71480>. More specific guidelines on the eligible topics, minimum requirements in terms of content and level of analysis will be communicated in class and posted in Learn.

Missing a Midterm Due to Illness During the Term

- Missing a midterm will automatically result in a grade of zero for that midterm. If the illness can be documented with a UW Verification of Illness Form (the only acceptable document), with approval you may transfer the weight of the missed midterm to the final exam. This remedy is a privilege and not a right.
- The midterm exam schedule has been set and will not be changed for whatever reason (no make-up midterm exams will be offered).

Missing the Final Exam Due to Illness

- Missing the final exam is a very serious matter which automatically results in a grade of zero for the final exam and possibly a failing grade for the course. Please carefully read the Economics Department policy on deferred final exams for instructions.
- No deferred final exam will be provided for students who missed all the exams (including the final exam) in this course.

Submission of Exam Papers

- Late submission of exam papers is not accepted and missed submissions will receive a zero mark for whatever reason.
- Exam papers must be submitted in whole and on time in the exam room. Exam paper
 - a) not submitted on time,
 - b) submitted with missing pages,
 - c) submitted elsewhere, with the exception of students with permission to write in the AS Office,
 - d) not received at all

will receive a grade of zero for whatever reason.

- It is the responsibility of students to ensure that they write exams in the location, date, and time assigned to their section. Students writing exams in the wrong section will be assessed a 20% penalty on the final exam grade. There will be no accommodation for possible differences in exam material or content.

Economics Department Deferred Final Exam Policy

- Deferred Final Exam Policy found at <https://uwaterloo.ca/economics/current-undergraduates/policies-and-resources/deferred-final-exam-policy>.

Course Outline

This class schedule is ambitious. Modifications and/or eliminations of certain content might be required given our limited time together. Any necessary modifications or eliminations to the course content will be communicated to you in the regular class period.

Week	Date	Theme and Topic	Readings Due
1	January 6, 8, 10	<i>Introduction to Advanced Business Finance:</i> Course Orientation and Organization Review of Key Concepts in Finance	No Assigned Reading
2	January 13, 15, 17	<i>Risk and Return, and the Cost of Capital:</i> Capital Markets and the Pricing of Risk	Chapter 10
3	January 20, 22, 24	<i>Risk and Return, and the Cost of Capital:</i> Systematic Risk and the Equity Risk Premium	Chapter 11
4	January 27, 29, 31	<i>Risk and Return, and the Cost of Capital:</i> Determining the Cost of Capital	Chapter 12
5	February 3, 5, 7	<i>Risk and Return, and the Cost of Capital</i> Risk and the Pricing of Options Midterm 1 Review MIDTERM 1 (In-class, February 7)	Chapter 13
6	February 10, 12, 14	<i>Risk and Return, and the Cost of Capital</i> Risk and the Pricing of Options <i>Financing Decisions:</i> Raising Equity Capital	Chapter 13 Chapter 14
	February 17 ² , 19, 21		
7	February 24, 26, 28	<i>Financing Decisions:</i> Raising Equity Capital <i>Financing Decisions:</i> Debt Financing	Chapter 14 Chapter 15
8	March 2, 4, 6	<i>Financing Decisions:</i> Debt Financing <i>Financing Decisions:</i> Capital Structure	Chapter 15 Chapter 16
9	March 9, 11, 13	<i>Financing Decisions:</i> Capital Structure Midterm 2 Review MIDTERM 2 (In-class, March 13)	Chapter 16

² Family Day. All classes cancelled and offices closed

Week	Date	Theme and Topic	Readings Due
10	March 16, 18, 20	<i>Financing Decisions:</i> Payout Policy	Chapter 17
11	March 23, 25, 27	<i>Financial Planning and Forecasting:</i> Financial Modeling and Pro Forma Analysis <i>Financial Planning and Forecasting:</i> Working Capital Management	Chapter 18 Chapter 19
12	March 30, April 1, 3	<i>Financial Planning and Forecasting:</i> Working Capital Management Final Exam Review	Chapter 19

Tentative Schedule of Review Quizzes

- Quiz 1: Released January 13, due January 20. Coverage: Ch 10,
- Quiz 2: Released January 20, due February 3. Coverage Ch 11
- Quiz 3: Released February 3 due February 14. Coverage: Ch 12, Ch 13
- Quiz 4: Released February 24, due March 9. Coverage: Ch 14, 15
- Quiz 5: Released March 9, due March 23. Coverage: Ch 16, 17
- Quiz 6: Released March 23, due April 3. Coverage: Ch 18, 19
- Any changes to this schedule and any other relevant information will be announced in class and posted in the LEARN News section.

Late Work

See above under *Review Quizzes, Midterms and Final Exam, Missing the Final Exam Due to Illness, and Submission of Exam Papers.*

Electronic Device Policy

- Laptop computers or other electronic devices (i.e., Apple or Android smartphones and tablets) may only be used to view lecture material or to access the Learning Catalytics page for this course.
- Photographic devices are not permitted in class due to copyright and privacy issues.
- Audio or video recording devices are not permitted in class due to copyright and privacy issues.

Attendance Policy

Class attendance is an integral part of your educational experience. It is an important factor in ensuring your complete understanding of the material presented. You are responsible for all material presented in the scheduled lecture periods whether you choose to attend lectures or not.

- I do NOT lend my lecture notes to students for any reason.

- In order to maintain a productive learning environment in the classroom, we all need to show the highest level of courtesy and professional behaviour. In particular, please be punctual and turn off all audible ringers on all devices during class.
- As a courtesy to the custodial staff, if you have coffee, water, etc., please dispose of your garbage when you leave the classroom.
- Please leave your private conversations for after the class.

Economics Department Deferred Final Exam Policy

Deferred Final Exam Policy found at <https://uwaterloo.ca/economics/current-undergraduates/policies-and-resources/deferred-final-exam-policy>.

Mental Health Support

All of us need a support system. The faculty and staff in Arts encourage students to seek out mental health supports if they are needed.

On Campus

- Counselling Services: counselling.services@uwaterloo.ca / 519-888-4567 xt 32655
- [MATES](#): one-to-one peer support program offered by Federation of Students (FEDS) and Counselling Services
- Health Services Emergency service: located across the creek from Student Life Centre

Off campus, 24/7

- [Good2Talk](#): Free confidential help line for post-secondary students. Phone: 1-866-925-5454
- Grand River Hospital: Emergency care for mental health crisis. Phone: 519-749-433 ext. 6880
- [Here 24/7](#): Mental Health and Crisis Service Team. Phone: 1-844-437-3247
- [OK2BME](#): set of support services for lesbian, gay, bisexual, transgender or questioning teens in Waterloo. Phone: 519-884-0000 extension 213

Institutional-required statements for undergraduate course outlines approved by Senate Undergraduate Council, April 14, 2009

Academic Integrity

In order to maintain a culture of academic integrity, members of the University of Waterloo community are expected to promote honesty, trust, fairness, respect and responsibility. See the [UWaterloo Academic Integrity webpage](#) and the [Arts Academic Integrity webpage](#) for more information.

Discipline

A student is expected to know what constitutes academic integrity, to avoid committing academic offences, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (e.g., plagiarism, cheating)

or about “rules” for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 – Student Discipline. For information on categories of offenses and types of penalties, students should refer to [Policy 71 - Student Discipline](#). For typical penalties check [Guidelines for the Assessment of Penalties \(https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/guidelines/guidelines-assessment-penalties\)](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/guidelines/guidelines-assessment-penalties).

Grievance

A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read [Policy 70 - Student Petitions and Grievances](#), Section 4 (<https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-70>). When in doubt, please be certain to contact the department’s administrative assistant who will provide further assistance.

Appeals

A decision made or penalty imposed under Policy 70, Student Petitions and Grievances (other than a petition) or Policy 71, Student Discipline may be appealed if there is a ground. A student who believes he/she has a ground for an appeal should refer to [Policy 72, Student Appeals \(https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-72\)](#).

Note for Students with Disabilities

The [AccessAbility Services](#) office, located on the first floor of the Needles Hall extension (NH 1401), collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the AS office at the beginning of each academic term.

If Using Turnitin in your Course

Turnitin.com: Text matching software (Turnitin®) will be used to screen assignments in this course. This is being done to verify that use of all material and sources in assignments is documented. Students will be given an option if they do not want to have their assignment screened by Turnitin®. In the first week of the term, details will be provided about arrangements and alternatives for the use of Turnitin® in this course.

Note: students must be given a reasonable option if they do not want to have their assignment screened by Turnitin®. See [guidelines for instructors](#) for more information.

Faculty of Arts-required statements for undergraduate course outlines

Cross-listed Course (if applicable)

Please note that a cross-listed course will count in all respective averages no matter under which rubric it has been taken. For example, a PHIL/PSCI cross-list will count in a Philosophy major average, even if the course was taken under the Political Science rubric.