

University of Waterloo
Department of Economics
ECON 372: Business Finance 2 (Section 041)
Fall 2020

Instructor Information

Instructor: Predrag Rajsic

Office Hours: Fridays 11:00 AM – 12:30 PM EST or by appointment (through MS Teams – please see below under Remote Delivery Essentials)

Email: prajsic@uwaterloo.ca

T.A. Information: TBA.

New: Remote Delivery Essentials

- PowerPoint slides of each lecture will be uploaded on the UW LEARN website on Sundays and Tuesdays by 7:00 pm EST
- Short videos (5 - 15 minutes) with key concepts will be uploaded on the UW Microsoft Team ECON 372 F2020 page on Sundays, and Tuesdays by 7 pm EST
- Class Video Chats:
 - Because many of you do not live in the same time zone as I do or may have other time constraints due to the remote nature of the course delivery, I will be refocusing teaching activities and to pre-recorded videos and online video chats. The pre-recorded videos will give you an opportunity to follow the teaching activities at your own pace guided by your time zone and other constraints. The plan is to give you the opportunity to see the PowerPoint slides and short videos before having the opportunity to see me through a class video meeting. There will be a video meeting slot available during selected days in the MS Teams video conferencing tool. The purpose of the video meetings is to provide a more direct learning experience where I could clarify concepts from the PowerPoint slides and previously uploaded pre-recorded videos, answer student questions, discuss course materials and course organization, discuss midterms or quizzes or other course-related issues. The meetings will be recorded and available for viewing shortly afterwards. The purpose of recording MS Teams meetings is to accommodate the asynchronous course delivery format for students in different time zones or with other availability constraints.
 - Class Video-Chat Times:
 - Mondays, Wednesdays: 11:00 – 12:20 AM EST

- Office Hours
 - Office hours will be done through MS Teams on an individual basis and will not be recorded for obvious privacy reasons.

You can access the MS Team ECON 372 F2020 using your University of Waterloo login credentials here: <https://www.microsoft.com/en-ca/microsoft-365/microsoft-teams/group-chat-software>

MS Teams is also available for download as a Windows, Apple or Android app.

- Please note that the MS Teams software is at the introductory stages at the University of Waterloo, so this may be a learning experience for us, the users, but also the UW support staff. As we progress through the semester, I will aim to resolve any potential technical issues or adjust the delivery mode to best suit the class educational needs and outcomes.

Notes on office hours or contacting instructor

Office hours for the Final Exam Period will be announced in November.

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.

Notes from the BookStore

- Hardcover and MyLab – ISBN: 9780135418178 - \$166.20 (<https://wstore.uwaterloo.ca/berk-et-al-fundamentals-of-corporate-finance-3rd-cdn-ed-with-mylab-finance-pkg.html>)
- Loose leaf and MyLab – ISBN: 9780135906552 - \$110.00 (<https://wstore.uwaterloo.ca/berk-et-al-fundamentals-of-corporate-finance-loose-leaf-3rd-cdn-ed-with-mylab-finance-with-etext.html>)
- MyLab and eText – ISBN: 9780135219508 - \$95.00 (<https://wstore.uwaterloo.ca/berk-et-al-mylab-finance-with-pearson-etext-for-fundamentals-of-corporate-finance-3rd-cdn-ed.html>)
- Learning Catalytics Code - \$17.25 (one year) (<https://wstore.uwaterloo.ca/pearson-learning-catalytics-1st-ed.html>)

The use of MyLab tests is optional. You may use them as a practice tool, but they will not be used for grading purposes.

Our Pearson Rep, Andrea Lehocki, will be hosting virtual office hours this fall to assist with any MyLab registration issues. Students should use the Pearson 24/7 support first and attend these hours only if their query has not been resolved.

Pearson Technical Support Virtual Office Hours

For issues directly related to MyLab please join one of the two zoom links listed below. Students will be admitted into the zoom chat one at a time, so we ask you to be patient and will be sure to speak to everyone who is in the waiting room. Please attend these office hours only after using Pearson 24/7 support and your query has not been resolved:

Pearson 24/7 Support Link:

<https://support.pearson.com/getsupport/s/contactsupport>

Zoom Office Hours - Please be ready to quote your 24/7 support reference number if not resolved

Thursday September 17th from 12pm-1pm

Andrea - <https://zoom.us/j/7934645583?pwd=T3lVbER5ZmcvNVNiejNQUm1BOVJxdz09>

Taylor - <https://pearson.zoom.us/j/9277259675?pwd=bDBoWkF2MHV0RmN3WW5lamgrdERuZz09>

If you have any other questions please do not hesitate to ask.

Readings Available on LEARN

- LEARN web site <https://learn.uwaterloo.ca/d2l/home>
- Announcements, lecture slides, midterm solutions
- Review Quizzes
- Midterms
- Final Exam

The LEARN site is down occasionally. Save the course materials to your computer as soon as they are posted. Always be prepared!

Examinations in this course are based on the material contained in the textbook and the content presented in the PowerPoint slides and the pre-recorded videos (which are strong complements, not substitutes).

Microsoft Team

- You can access the MS Team for ECON 372 F2020 through your University of Waterloo account here: <https://www.microsoft.com/en-ca/microsoft-365/microsoft-teams/group-chat-software>
- MS Teams is also available for download as a Windows, Apple, and Android app.
- MS Teams will be used for class video chats (more details in **Remote Delivery Essentials** at the beginning of this outline)

Course Requirements and Assessment

The course grade will be based on review quizzes, two midterm exams, and a final examination which will be held during the Official Examination Schedule. The midterms will be completed online through the LEARN system on the dates specified below. There will be a 24-hour window during which each of the midterms will be available for completion. The midterm duration will be 90 minutes from the moment you start the midterm in LEARN. The midterm with the better mark will be worth 30% of your final grade, while the second-best midterm will be worth 25% of your final grade.¹ The final exam will constitute 35% of your final grade and will be comprehensive (i.e., cover all course material from beginning to end). The final exam will be completed online through the LEARN system. There will be a 24-hour window² during which the final exam will be available for completion.

There will also be a bonus grade up to 2% for participation (more on participation below under **Participation**). The grade breakdown is as follows:

Assessment	Date of Evaluation (if known)	Weighting
Review Quizzes	TBA	10%
Midterm 1	Wednesday, October 21	25% or 30%
Midterm 2	Wednesday, November 25	25% or 30%
Bonus for participation ³		2%
Final Exam	TBA	35%
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.

¹ Please note that the Learn website does not have an option to adjust weights to each student individually. I will set constant weights for each student of 25% for the first midterm and 30% for the second midterm in Learn, but I will be adjusting those weights individually in my Excel sheet when calculating final grades at the end of the semester.

² The final exams will be scheduled by The Registrar's Office. The default time window for the completion of the final exam is 24 hours. The Registrar's Office has indicated that there is a possibility of extending this time window to 48 hours. Any updates on the eventual extension of the final exam time window will be communicated in MS Teams meetings and posted in the Learn Announcements section.

³ 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

I will be adding participation questions in the pre-recorded short lecture videos. 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. You will be able to participate in any Learning Catalytics session at any time within the 28-day time window from the start date of each session. The start date of each session will be announced in MS Teams sessions. The primary purpose of Learning Catalytics 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, and, of course, to motivate you to watch the pre-recorded lecture videos. You will be able to submit answers to the questions I ask in the lecture videos 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-video 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 Lab), 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 MyLab, 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 Andrea if you need anything at all Andrea.Lehocki@pearson.com.

Midterms and Final Exam

- The format for midterms and the final exam will be a mix of multiple-choice questions, numerical calculation questions, and written problems.
- The final exam period for the Fall Term 2020 is December 9 – 23 inclusive. More on the UW Final Examination policy can be found here: <http://ugradcalendar.uwaterloo.ca/page/Acad-Regs-Assignments-Tests-and-Final-Exams>
- The final exams will be scheduled by The Registrar's Office. The default time for the completion of the final exam is any 150 minutes within a 24-hour window. The Registrar's Office has indicated that there is a possibility of extending this time window to 48 hours. Any updates on the eventual extension of the final exam time window will be communicated in MS Teams meetings and posted in the Learn Announcements section.

- Only the Registrar’s Office can issue final grades.

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

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 documented⁴, with approval, you may transfer the weight of the missed midterm to the final exam. This remedy is a privilege and not a right.

Missing the Final Exam Due to Illness

- Missing the final exam is a 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.
- Elective arrangements (such as travel plans) are not considered acceptable grounds for granting an accommodation.
- Students are permitted to self-declare illness due to COVID-19 but will require a virtual Verification of Illness Form if they missed an exam due to mental health or non-covid-19 related illness.
- The Undergraduate Associate Chair will determine whether a deferred exam will be granted if required.
- No deferred final exam will be provided for students who missed all the exams (including the final exam) in this course

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	September 9, 10	<i>Introduction to Advanced Business Finance:</i> Course Orientation and Organization	No Assigned Reading

⁴ Students are permitted to self-declare illness due to COVID-19, but will require a virtual Verification of Illness Form if they missed an exam due to mental health or non-covid-19 related illness.

Week	Date	Theme and Topic	Readings Due
		Review of Key Concepts in Finance	
2	September 14, 16, 18	<i>Risk and Return, and the Cost of Capital:</i> Capital Markets and the Pricing of Risk	Chapter 10
3	September 21, 23, 25	<i>Risk and Return, and the Cost of Capital:</i> Systematic Risk and the Equity Risk Premium	Chapter 11
4	September 28, 30, October 2	<i>Risk and Return, and the Cost of Capital:</i> Determining the Cost of Capital	Chapter 12
5	October 5, 7, 9	<i>Risk and Return, and the Cost of Capital</i> Risk and the Pricing of Options	Chapter 13
6	October 12, 14, 17	No Classes – Reading Week	
7	October 19, 21, 23	Midterm 1 Review MIDTERM 1 (October 21) <i>Financing Decisions:</i> Raising Equity Capital	Chapter 14
8	October 26, 28, 30	<i>Financing Decisions:</i> Raising Equity Capital <i>Financing Decisions:</i> Debt Financing	Chapter 14 Chapter 15
9	November 2, 4, 6	<i>Financing Decisions:</i> Debt Financing <i>Financing Decisions:</i> Capital Structure	Chapter 15 Chapter 16
10	November 9, 11, 13	<i>Financing Decisions:</i> Capital Structure <i>Financing Decisions:</i> Payout Policy	Chapter 16 Chapter 17
11	November 16, 18, 20	<i>Financing Decisions:</i> Payout Policy <i>Financial Planning and Forecasting:</i> Financial Modeling and Pro Forma Analysis	Chapter 17 Chapter 18
12	November 23, 25, 27	Midterm 2 Review MIDTERM 2 (November 25) <i>Financial Planning and Forecasting:</i> Financial Modeling and Pro Forma Analysis	Chapter 18
13	November 30, December 2, 4	<i>Financial Planning and Forecasting:</i> Working Capital Management	Chapter 19
14	December 7	Final Exam Review	

Tentative Schedule of Review Quizzes

- Quiz 1: Released September 14, due September 21. Coverage: Ch 10,
- Quiz 2: Released September 21, due September 28. Coverage Ch 11
- Quiz 3: Released October 5 due October 19. Coverage: Ch 12, Ch 13

- Quiz 4: Released October 26, due November 9. Coverage: Ch 14, 15
- Quiz 5: Released November 9, due November 23. Coverage: Ch 16, 17
- Quiz 6: Released November 23, due December 7. 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.

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](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-70), 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 \(https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-72\)](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.