

University of Waterloo
Department of Economics
ECON 372: Business Finance 2 (Section 001)
Fall 2021

Instructor Information

Instructor: Predrag Rajsic

Office Hours: Mondays 1:00 PM – 2:30 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
- Class Video Sessions:
 - 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 to recorded online video sessions.

There will be a video session/meeting slot scheduled during selected days in the MS Teams video conferencing tool. The purpose of the video sessions is to provide a more direct learning experience where I could clarify concepts from the PowerPoint slides and pre-recorded videos, answer student questions, discuss course materials and course organization, discuss midterms or quizzes or other course-related issues. The sessions 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-Session Times:
 - Mondays, Wednesdays: 10:00 – 11:20 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 F2021 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.

- Learning Catalytics Videos
 - Short videos (5 - 15 minutes) with key concepts will be uploaded on the UW LEARN Website. In these videos, in addition to discussing some key course concepts, I will provide Learning Catalytics Session IDs for accessing participation questions (please see more under **Participation**)

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, financial derivatives, and forecasting. 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 how 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.

Resources from the BookStore

- **Option 1: (Digital)**
Title : Fundamentals of Corporate Finance 3rd ed + Mylab
Author: AC Berk et al
ISBN : 9780135219508
Price : \$95.00
Access: [Access Codes \(campusebookstore.com\)](https://campusebookstore.com)
- **Option 2: (Hardcover Package)**
Title : Fundamentals of Corporate Finance 3rd ed + Mylab
Author: Berk et al
ISBN : 9780135418178
Price : \$189.99
- **(Digital)**
Title : Learning Catalytics
ISBN : 9780134205496
Price : \$17.25 (one year)

The use of MyLab tests is optional. You may use them as a practice tool, but they will not be used for grading purposes. Learning Catalytics is used for bonus participation marks. More information on Learning Catalytics can be found on pages 5 and 6 of this outline.

Pearson 24/7 Support Link:

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

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, MS Teams sessions, and the pre-recorded videos (which are strong complements, not substitutes).

Microsoft Team

- You can access the MS Team for ECON 372 S2021 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%

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.

Assessment	Date of Evaluation (if known)	Weighting
Midterm 1	Wednesday, October 20	25% or 30%
Midterm 2	Wednesday, November 17	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.

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. Included with the purchase of a new text is a subscription to Learning Catalytics (through Lab), which is a web-based student response system.

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.**

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.

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 2021 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.

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.

- 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 during the regular MS Teams sessions.

Week	Date ⁵	Theme and Topic	Readings Due
1	September 8	<i>Introduction to Advanced Business Finance:</i> Course Orientation and Organization Review of Key Concepts in Finance	No Assigned Reading
2	September 13, 15	<i>Risk and Return, and the Cost of Capital:</i> Capital Markets and the Pricing of Risk Systematic Risk and the Equity Risk Premium	Chapter 10 Chapter 11
3 ⁶	September 20, 22	<i>Risk and Return, and the Cost of Capital:</i> Systematic Risk and the Equity Risk Premium	Chapter 11
4	September 27, 29	<i>Risk and Return, and the Cost of Capital:</i> Determining the Cost of Capital	Chapter 12
5	October 4, 6	<i>Risk and Return, and the Cost of Capital</i> Risk and the Pricing of Options	Chapter 13
6	October 11, 13	Reading Week ⁷	
7	October 18, 20	Midterm 1 Review MIDTERM 1 (October 20)	
8	October 25, 27	<i>Financing Decisions:</i>	Chapter 14

⁵ The dates refer to the when the MS Teams video sessions are occurring. The actual PowerPoint lectures are downloaded the day before as outlined in Remote Delivery Essentials.

⁶ May 24 - All classes cancelled, and offices closed.

⁷ All classes cancelled; offices closed on the weekends and the holiday Monday.

Week	Date ⁵	Theme and Topic	Readings Due
		Raising Equity Capital	
9	November 1, 3	<i>Financing Decisions:</i> Debt Financing	Chapter 15
10	November 8, 10	<i>Financing Decisions:</i> Capital Structure	Chapter 16
11	November 15, 17	Midterm 2 Review MIDTERM 2 (November 17)	
12	November 22, 24	<i>Financing Decisions:</i> Payout Policy	Chapter 17
13	November 29, December 1	<i>Financial Planning and Forecasting:</i> Financial Modeling and Pro Forma Analysis	Chapter 18
14	December 6	<i>Final Exam Review</i>	

Tentative Schedule of Review Quizzes

- Quiz 1: Released September 20, due September 27. Coverage: Ch 10,
- Quiz 2: Released September 27, due October 4. Coverage: Ch 11
- Quiz 3: Released October 4, due October 18. Coverage: Ch 12, Ch 13
- Quiz 4: Released October 25, due November 8. Coverage: Ch 14, 15
- Quiz 5: Released November 22, due November 29. Coverage: Ch 16, 17
- Quiz 6: Released November 29, due December 6. Coverage: Ch 18
- Any changes to this schedule and any other relevant information will be announced in MS Teams sessions.

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.