

Boston University Questrom School of Business
FE713 Finance 3: Making Financing Choices
Spring 2023

Class Schedule: Brief case write-ups must be submitted by 4:00 pm on the date that the case is being discussed. All MFL (My Finance Lab) homeworks must be completed by 6:30 pm on the due date.

| | Dates | Topic | Reading | Deliverables |
|---|----------|--|-----------------------------------|--|
| 1 | 3/13 | Modigliani & Miller: Capital Structure in Perfect Markets Debt and taxes | Chapters 14&15 | Answer questions 5–6 of the Ginny’s Restaurant case from FE711/722 |
| 2 | 3/20 | Case: Bankruptcy of Cumulus Debt and taxes, continued HBS Note on Bankruptcy | HBS Case #9219093 #9292062 | MFL HW1 Answer posted case questions and be prepared to discuss in class <i>Groups formed by 3/20</i> |
| 3 | 3/27 | Case: Financial Policy at Swedish Match The trade-off theory | HBS Case #9212017 Chap 16 | MFL HW2 Answer posted case questions <i>Project choice due 3/31</i> |
| 4 | 4/3 | Case: Stone Container (A) Tradeoff theory, continued | HBS Case #9297047 | MFL HW3 Answer posted case questions |
| 5 | 4/10 | Case: Dividend Policy at Linear Technology Payout policy | HBS Case #9204066 Chap 17 | MFL HW4 Answer posted case questions |
| 6 | Wed 4/19 | Case: Genzyme and Relational Investors Corporate governance | Case UV6529 Chap 29 | Answer posted case questions Read extra readings posted on Blackboard |
| 7 | 4/24 | Case: Magna International (A) Extra readings posted on Blackboard | HBS Case #9211044 | <i>Final project due</i> Answer posted case questions |
| 8 | 5/1 | Final Exam Poster session | | |

Classtime: Monday 6:30–9:15 pm
Instructor: Pegaret Pichler, Ph.D.
Office: HAR 515G
Office Hours: Monday, Thursday 5:30–6:15 pm

Room: HAR 222
Email: pegaretp@bu.edu

Course Description: The course is designed to follow FE711 and 712 for FTMBAs, or FE722 for PEMBAs. Whereas those courses focus on valuing projects and firms, taking financing choices as given, this course aims to give students an understanding of how financing choices should be made. We start with the Nobel Prize winning Modigliani–Miller Theorem, and then proceed to introduce the various market “imperfections” which affect real world financing. We will investigate the impact that each of these imperfections has on capital structure choices. The most relevant imperfections include: taxes, financial distress costs, information asymmetries, and agency problems (conflicts of interest between shareholders and debt holders, and between shareholders and managers). We will also examine firms’ payout policies in light of these imperfections, and we will examine issues of corporate governance. (The G of “ESG”.) Included in our corporate governance discussions we will examine the role of activist investors.

Prerequisites: FE711 and FE712, or FE722.

Learning Goals:

The main goal in FE713 is to provide you with a framework for making capital structure choices. By the end of the semester you should have:

- a basic understanding of the theory and practice of corporate finance.
- a set of analytical tools to analyze the effects of different capital structure choices for a firm.
- an awareness of the consequences of different financing choices.
- a general understanding of why firms in different industries may make very different financing choices.

These goals contribute towards the MBA learning goals of enabling students to develop an understanding of core knowledge of finance, and by helping students to successfully apply critical and analytical thinking.

Course Pedagogy:

The course will include a mix of:

- Lectures that are structured mostly around questions in which students are expected to participate.
- Case studies, with active student participation.
- Practical problems solved in Excel
- Discussion of current events

Course Materials:

1. **Lecture notes.** Available at the course website on Blackboard. You should check this website on a regular basis.

2. **MyFinanceLab.** This is required in order to complete the MFL homeworks. Included in this is the e-text: Corporate Finance by Berk and DeMarzo.
This course uses the same MyFinanceLab course as was used for FE712. If you took FE712 this semester, you can simply continue to use the MFL site from 712. If not, please contact me at pegaretp@bu.edu and I will open up enrollment for you.
3. **Cases:** Harvard Business School case packet, includes six cases and one note for \$29.75. Make sure you buy the packet for FE713Spring2023, available at:
<https://hbsp.harvard.edu/import/1036588>
4. A laptop with **Excel**.
5. **Additional readings** posted on Blackboard.
6. *Optional:* A subscription to the Wall Street Journal, Barron's, or the Financial Times.

Grading:

MFL Homework 20% (4 x 5%)

Brief case write-ups 10% (2 x 5%)

Class participation 15%

Group project 25%.

Final Exam 30%

MyFinanceLab (MFL) Homework:

Each MFL HW assignment must be completed by 6:30 pm on the due date. These are to be done individually. For each HW you may make 3 attempts, with no time limits.

Brief case write-ups:

Due by **4:00 pm** on the day that the case is being discussed. I need time to read these before class, so ***late submissions are not accepted***. You will choose 2 of the first five cases (weeks 2 – 6) to hand in a brief write-up. This write-up should include at most one page of text, but may include a second page with some exhibits. You are not expected to present a full thorough solution to the case in this brief write-up; the case assignment will specify what is expected for the brief write-up. You should be prepared to be called on in class to discuss your submission.

I will post a sign-up sheet on Blackboard for your two write-ups. The number of students for each case will be limited.

Rules for final exam:

The final exam will be open-book. I.e., you may use whatever material you have on your computer or in your notes. Internet use is not permitted. Searching the internet for answers or communicating with others during the exam is not permitted and considered a violation of the Academic Conduct Code.

Participation:

Class attendance is required. *Everyone is expected to read all cases and do some preparation for each case, including cases for which you are not handing in a write-up. Always bring your name card* and have it set up so that I and other students can read it. *A name card is a requirement for participation credit.* Participation credit does not require that you give a “correct” answer. Many questions that I ask are challenging, and I want you to feel comfortable that my class is the place to stumble. What I require is that you give an answer that is thoughtful and indicates that you have prepared for class.

Group Project:

I will post to Blackboard, at the latest by the beginning of Week 2, a list of possible projects/cases that you may choose from. You will work in groups of 3 to 5 students. Your topic selection must be submitted to me by email at the latest by March 31. There is, however, an incentive to submitting early. At most 3 groups may work on any given topic, with assignments being awarded on a first-come-first-served basis. You should be prepared with a second and third choice in case your first choice is no longer available. The deliverables will be a report and a poster for our final day poster session. More details for the project will be posted in the Assignment folder on Blackboard.

Important dates:

3/20: Submit group members; inform instructor if not in a group.

3/31: Submit topic choice(s).

How to do well in this class:

- ***Before class: read and solve the case*** and do the other assigned readings. Don't worry if you don't understand everything. What you don't understand should become clear in class. If not, then you are prepared to ask questions.
- ***Bring to class:*** your notes for the case, the lecture notes (for that class and the one before), your laptop with Excel, your name card.
- ***AFTER EACH CLASS GO OVER THE NOTES and EXCEL EXERCISES done in class. Make sure that you are able to reproduce every calculation that we did in class.***
- ***DO ALL OF THE ASSIGNMENTS.*** This includes the MFL homework, HBS cases, and any recommended practice problems. The benefit to you is in the process of doing the work. I strongly recommend trying problems before looking at the answers. For those of you who are athletes or performers you can think of the difference between preparing for competition or performance (the exams) by watching someone else perform, or by doing the exercises yourself.

Academic integrity: My goal is to create a community where you will feel invested and included. The importance of honesty and integrity in this learning community cannot be overemphasized: there must be trust in order to learn. Every member of the Boston University Questrom School of Business is responsible for creating an ethical environment; I will do my best every day to create that in our class, but it can't happen without your commitment too. I also expect you to abide by the Academic Conduct Code. It is easy to do: follow all assignment and exam rules. If you have a question about the rules of an assignment, (can I collaborate on this assignment? Can I use my phone to check the time during an exam?) ask me – it's my job to help you with this.

Any student caught cheating or submitting work that is not their own may receive a grade penalty up to and including a failing grade for the course, and potentially a sanction up to suspension or expulsion.

Students who do not take academic integrity seriously damage the reputation of the Program from which you will graduate. Don't be that student. Please see BU's Academic Integrity website for more information. And always remember: if you have questions or concerns about an assignment, deadline, reading, exam, anything, just email me.

Diversity and inclusion: In developing the materials and assignments for this course, I have aimed to be thoughtful about how identity, culture and learning styles impact the course content. I intend students from all diverse backgrounds and perspectives be well-served by this course and that the diversity that students bring to this class be viewed as a strength and a benefit.

During the semester we will discuss content that will inspire debate, different opinions, and shared experiences. Learning can only happen in a community that is respectful and inclusive; we all belong in this community, and we will value each other's experiences. All members of the class will conduct themselves in a professional manner. Remember, you can disagree with the idea and still respect the person.

I invite you to share your personal experiences and perspective related to the course content; we can learn from each other. Your suggestions on how to make this class and our classroom more inclusive are encouraged and appreciated. If there are topics or conversations that you feel would benefit from incorporation of social context, a differing perspective, or Questrom's Office of Diversity & Inclusion, please inform me and I will explore resources and opportunities for us to engage a wide variety of perspectives in our classroom.

Accommodations for students with special needs: In keeping with University policy, any student with a disability who needs academic accommodations should call the Office of Disability Services at 353-3658, or visit 19 Deerfield Street to arrange a confidential appointment with a Disability Services staff member. Accommodation letters must be delivered to me in a timely fashion (within two weeks of the date on the letter and not later than two weeks before any major examination). Please note that accommodations cannot be provided without an official letter of accommodation.

Mental Health and Wellness: Life in a graduate program can get complicated and it is easy to feel overwhelmed, lost, anxious, or depressed. If you find yourself struggling with your mental or physical health this semester, please feel free to approach me. I will try to be flexible and accommodating, within reason. But I am not a professional and there is no shame in getting help. Help for managing stress and your mental wellbeing can be found at Student Health Services, and Behavioral Medicine. There you can find short term therapy, groups, and workshops, 24/7 on-call service (617 353-3569), referrals, and more resources. If you are feeling stressed and having trouble making choices around alcohol consumption the Collegiate Recovery Program may offer help.

Financial Insecurity: We learn as whole people. It can be challenging to do your best in school when you are worried about meeting basic needs like safe shelter, sleep, and nutrition. If financial insecurity is an obstacle to learning, I urge you to contact Terrier Meal Share, Boston University Financial Assistance, or the Dean of Students Office.

Sexual misconduct/ Title IX policy: The Questrom School of Business is committed to fostering a safe learning environment for all members of the its community and preventing sexual misconduct. All forms of sexual misconduct, including rape, acquaintance rape, sexual assault, domestic and dating violence, stalking, and sexual harassment are violations of Boston University's policies, whether they happen on campus or off campus. Title IX of the Education Amendments of 1972 is a federal civil rights law that prohibits sex-based discrimination in federally funded education programs and activities. This law makes it clear that violence and harassment based on sex and gender is a Civil Rights offense subject to the same kinds of accountability and the same kinds of support applied to offenses against other protected categories such as race, national origin, etc. If you or someone you know has been harassed or assaulted, you can find the appropriate resources at <http://www.bu.edu/safety/sexual-misconduct/>.