

SYLLABUS – effective 27 AUG 2012

**INTRODUCTION TO CORPORATE FINANCE
FINANCE 500 CRN #20773**

Autumn 2012 Session

Mondays

6:00 pm – 8:30 pm

Location: DH 330 (Douglas Hall, Room 330)

DEPARTMENT OF FINANCE, COLLEGE OF BUSINESS ADMINISTRATION

UNIVERSITY OF ILLINOIS at CHICAGO

EXAMINATION DATES ARE:

Monday, 24 SEPT 2012 – Mid-Term Examination #1 for 30% of Course Grade

Monday, 29 OCT 2012 – Mid-Term Examination #2 for 35% of Course Grade

Monday, 03 DEC 2012 – Mid-Term Examination #3 for 35% of Course Grade

- OR -

Monday, 10 DEC 2012 – Optional & Comprehensive “Make-Up” Examination for 100% of Course Grade; please note that this is an Optional Exam for you and there is a “cost” for that “option.” Details are within the Syllabus. READ THOSE DETAILS CLOSELY TO AVOID UNANTICIPATED CONSEQUENCES.

If you cannot attend class on any of these Mid-Term Examination dates, then you have three alternatives:

- Drop this section prior to Friday, 07 SEPT 2012, to avoid receiving a “W” on your transcript;
- Select a different section for Finance 500 as soon as possible; or
- Plan to attend the Optional & Comprehensive Make-Up Examination for 100% of your Course Grade.

There are ABSOLUTELY no excused absences from ANY Mid-Term Examination date for ANYBODY. If you are absent, your Make-Up Examination is scheduled for Monday, 10 DEC 2012.

Any student requesting an exception will elicit the following questions from me:

1. Have you read the Syllabus at all?
2. Do you lack sufficient cognitive skills to grasp the contents of the Syllabus?
3. Why are you worthy for an exception to the Course’s Syllabus and Policies?
4. Why should I not think of your request as originating from a self-centered, egocentric narcissist?

Furthermore, if you have a documented disability that is on file with the Disability Resource Center (DRC) and the head of the Finance Department, you must contact me PRIOR to Friday, 07 SEPT 2012, regarding your examination accommodations. If you do not contact me prior to 07 SEPT 2012, I will NOT honor any DRC requests for special accommodations. I will NOT provide any exceptions to those missing this deadline. Any examinations provided under DRC special accommodations will NOT be identical to examinations provided on scheduled exam dates. There are absolutely no assurances that the DRC special accommodated examinations will not be more difficult or challenging.

SYLLABUS – effective 29 JULY 2012
INTRODUCTION TO CORPORATE FINANCE
FINANCE 500 Call #20773

Fall 2012 Semester

MONDAYS (with two FRIDAYS)

6:00 pm – 8:30 pm

Location: DH 330 (Douglas Hall, Room 330)

DEPARTMENT OF FINANCE, COLLEGE OF BUSINESS ADMINISTRATION, UIC

Instructor: Randy L. Adams

Office Hours: By Appointment

Telephone: 630-337-6874 (send E-Mail first)

E-Mail: randylee@uic.edu (much preferred!)

Required Textbook: "Principles of Finance with Excel, 2nd Edition," by Simon Benninga. ISBN 978-0-19-975547-9. Copies have been ordered for the Eastside UIC Bookstore. Be sure to have a copy before the first day of class. Each NEW COPY will have a CD-ROM of Excel spreadsheets. It is critical to have this textbook and CD-ROM prior to the first day of class on Tuesday, 27 AUG 2012. Readings will be assigned PRIOR TO THE FIRST DAY OF CLASS.

While this is the required textbook, you WILL receive MANY handouts that will constitute a very critical component of the course's readings. These handouts will be posted on Blackboard under "Course Documents." PowerPoint slides from the assigned textbook chapters are uploaded into Blackboard for your use prior, during, and after the lectures.

Required Pre-requisite: ACTG 500 and credit or concurrent registration in ECON 520 and admission to the MBA program, the MA in Real Estate program, the Master of Health Administration program, or approval of the director of graduate studies. I will make FREQUENT references to accounting concepts, such as those covered in Accounting 500. You are advised – and encouraged! – to refresh your understanding T-accounts, debits/credits, the differences between net income and operating cash flow, etc.

Course Focus: Theory and applications of corporate finance: goal of the firm, time value of money, investment decisions (under certainty and uncertainty), net present value, capital markets, and corporate financing decisions. Specific topics include: capital budgeting rules, mean-variance optimization (a.k.a., Modern Portfolio Theory), Capital Asset Pricing Model, Efficient Market Hypothesis, capital structure with and without debt & taxes, dividend irrelevance, option pricing models, etc. The course is meant to expose students to several topics and develop rudimentary working knowledge. The course is not meant to create experts in investments, commercial banking, or mergers & acquisitions.

Alternative Course Focus: From another perspective, the first third of the course involves the study of the mechanics of Discounted Cash Flow ("DCF") analysis. The second third of the course is focused on the applications of DCF in "perfect" markets. The last third of the course explores the real world ambiguity of the applications of DCF in "imperfect" markets. Additional details are provided in the "Course Overview."

Instruction Method: Lectures, assigned readings, recommended homework assignments, and examinations. Grading is solely based upon results from the examinations. There are no graded homework assignments, group projects, or extra credit assignments.

What is this class like? Several comments reoccur from the students' course evaluations: "There is an excessive amount of readings...There is an overwhelming amount of 'recommended' homework assignments...The pace is fast or extremely fast, and there is too much material covered in a short period of time...The course difficulty is hard or very hard...The environment is intense and uncompromising...The subject matter is very detailed and much focused...The instructor is difficult, rude, unresponsive, unhelpful, and just plain mean."

Consequently, I expect you to have high expectations for yourselves. This class is your "job" and I am your "supervisor." I evaluate your performance and pay you in grades instead of cash. Expect to devote 10-15 hours per week – in addition to class time – to preparation. This will include reading the textbook, additional assigned readings, recommended homework problems, and exam review. You will earn your grade the old-fashioned way: You must give "value" – your utmost effort – to receive "value" from me – a grade. Invariably, your grade is a result from your own choices and priorities, but sometimes there is a natural, human reluctance to take direct responsibility for your choices. Yet, I refuse to take responsibility – directly or indirectly – for your choices.

Language Barriers? Please note I assume your English language proficiency is sufficient to understand written and spoken Standard American English. I will not accept any excuses of or petitions premised upon weak English language skills, given your submission of satisfactory TOEFL scores and/or admission to the University's graduate program.

Class Policies:

I. SCOPE

1. Reading assignments and this syllabus may be modified during the semester. **NOTE THIS!** Everything in the textbook, lectures, homework assignments, overhead slides, PowerPoint slides, and handouts (!!!) are fair game for the exams – UNLESS I tell you it is not subject to the exams.
2. In addition to the textbook and assigned readings, please read a variety of business-related news via the web or newspaper, such as the *Wall Street Journal*, *New York Times*, *Barron's*, etc. This will enhance your understanding of my frequent references to current events.
3. Assigned Readings from the textbook or provided by me: Please note that the exam questions will be nearly impossible to answer if you fail to keep up with the readings. At times, **there may be an excessive amount of readings**. I recommend that you become very organized about finishing the readings on time and to TAKE NOTES on what you read. This may keep you from skimming over the material without realizing that you do not understand the material.

II. ATTENDANCE

1. Roll will not be taken in each class. Class will start promptly at 6:00 pm. It is YOUR responsibility to stay current with the readings and to **secure from your fellow classmates any material passed out from previous lectures**. Do not ask me to supply notes or handouts to you from the previous lectures at the beginning of class. You are responsible for all material covered in class (whether in the assigned readings or not, plus the assigned material in the syllabus). If in doubt, check Blackboard first.
2. If you know in advance that you must miss class, you may try to appeal to the kindness of another student to obtain any handouts and take careful notes for you. Please do not ask me to “fill you in” on what you missed or to give you lecture notes. As always, check Blackboard for any uploaded slides or notes.
3. If you fail to attend any of the three Mid-Term Examinations for any reason (broken alarm clock, unavailable transportation to exam site, your own illness, a relative's illness, pregnancy, death in the family, work commitments – scheduled or unscheduled, military deployment, wedding, criminal proceedings, vacation, etc.), please plan to attend the comprehensive “Make-Up” Exam. There will be NO excused absences from any Mid-Term examination.
4. FREE ADVICE! Those students inadvertently missing a Mid-Term Exam are **strongly encouraged** to take any remaining Mid-Term Exams as “practice exams” for the Comprehensive “Make-Up” Exam. It has been noticed that students benefit from taking any or all of the Mid-Term Exams as preparation for the Comprehensive “Make-Up” Exam.
5. INCLEMENT WEATHER!!! There may be cases where a class will be POSTPONED due to dangerous weather conditions. If a class is cancelled, the class will be informed via e-mail blast FROM ME and Blackboard Announcement posting FROM ME. Class would be rescheduled to an upcoming Friday evening; details on location would be provided via e-mail and Blackboard Announcement.

III. GRADING

1. Grades will comprise of Mid-Term #1 (30%), Mid-Term #2 (35%), and Mid-Term #3 (35%). Students may choose to take the comprehensive (and cumulative) Optional “Make-Up” Exam for 100% of their course grade. Some students may choose to take all 3 Mid-Terms, BUT FIND THEIR COURSE GRADE UNSATISFACTORY. For those students, this OPTIONAL “Make-Up” Exam could improve their course grade. But there is a COST. IF YOU CHOOSE TO TAKE THE OPTIONAL “MAKE-UP” EXAM, YOU WILL FORFEIT ALL MID-TERM GRADES AND MUST ACCEPT THE GRADE OF THE OPTIONAL “MAKE-UP” EXAM. In other words, you must be very confident and well-prepared for the Optional “Make-Up” Exam, but your Mid-Term Exams will be forfeited.
2. Grading will be: A, 90%-100%; B, 80%-89%; C, 70%-79%; D, 60%-69%; and F, 0% - 59%. Borderline cases will be subjected to rounding to the nearest 1%. For example, a student receiving a 79.5% will be

rounded to 80%. A student receiving 79.4% will receive 79%. **All grades – including the course grade – are FINAL.** Do not attempt to negotiate your grade. It will only worsen your circumstances.

3. There are **NO** extra credit opportunities. Do not allow yourself to be caught wishing for extra credit.
4. At my sole discretion, examination grades may be curved upward to achieve either a class-wide median or arithmetic mean of 75.0. This involves adding points to all test-takers' grades until the class-wide median or mean is 75.0. For example, if a Mid-Term Exam had a median of 73.4 and arithmetic mean of 76.2, then 1.6 points would be added to all test-takers' scores of this – and only this – Mid-Term Exam. Another example: if a Mid-Term Exam had a median of 75.2 and mean of 76.9, then no points would be added to any test-takers' scores of this specific Mid-Term Exam. Grades will NOT be curved downward under any circumstances.
5. BE AWARE THAT INCOMPLETE (I) GRADES ARE NOT PROVIDED IN THIS COURSE SECTION. Your performance is evaluated solely by your examination grades. There are no assignments or projects that would require time after the end of the semester to warrant an Incomplete grade. Per the Graduate College Catalog, an incomplete grade may be given only if, for reasons beyond the student's control, required work has not been completed by the end of the term. Incomplete grades are provided to those students who are unable to complete assigned coursework before the final exam or end of the semester.

In our section of Finance 500, there are no assigned coursework requiring completion prior to the end of the semester. There are only three mid-term examinations with specific, assigned dates. Those students unable to attend all three mid-term examinations are able to attend the Make-Up Examination during Finals Week. Also, those students unsatisfied with their grades from the mid-term examinations may attend the Make-Up Examination in an effort to improve their grade. Lack of attendance in any of those four examination dates will result in a zero score for the affected examination. There are no "make-up" assignments other than the Make-Up Examination during Finals Week.

IV. EXAMINATIONS

1. Examinations will be held during class on the following dates: Monday, 24 SEPT 2012; Monday, 29 OCT 2012; and Monday, 03 DEC 2012. **If you cannot attend class on any of these dates, consider dropping the course now – OR PLAN TO ATTEND the Comprehensive Optional "Make-Up" Exam on Monday, 10 DEC 2012.**

2. To assign accurate grades, it is critical that all students in the class take the same examination at the same time. Absence from an exam will result in a grade of zero for that exam.

3. There will be NO ALTERNATIVE quizzes or examinations for this course grade. If you miss an exam or lack crucial class notes, you will bear the consequences. The comprehensive "Make-Up" Exam will become your "make-up" examination. The "optional" comprehensive "Make-Up" Exam will be held during Exam Week.

Original Exams & Scanned Copies: After you review your graded exam paper, all "original" examinations (not copies) must be in my possession for you to receive credit BEFORE you leave the classroom. If you depart from the classroom with your exam, you will receive ZERO CREDIT. I will not take any exam back into possession after you depart from the classroom. You may request a scanned copy of the exam – via e-mail ONLY - within 48 hours after reviewing your graded Exam. I will NOT respond to any scan requests after 48 hours and will not honor ANY exceptions! Specific dates and times will be listed on the cover page of each Exam.

Appeal Process: At my discretion, you have only 48 hours - AT MOST - after reviewing your written Exam – not your scanned copy - to request a re-grade ONLY by e-mail. You must be SPECIFIC in your request, explaining WHY a SPECIFIC question should be re-graded and WHY your SPECIFIC answer is superior to the official answer. Non-specific, meandering, & pointless requests will be summarily DENIED. I reserve the right to respond to e-mailed requests solely by e-mail no later than the next class session. Specific dates and times will be listed on the cover page of each Exam.

Point Allocation Policy for All Exams:

There are only three outcomes for point allocations – zero, one-half, and full credit. Do not be silly and request “full credit” when you do not have a perfect answer.

- Zero credit: an absence of understanding the concept(s) behind the question, or an inappropriate/incorrect concept applied to the generation of the answer. Also, zero points will be applied to the lack of answers.
- Partial credit: despite an erroneous answer or incorrect inputs, there appears to be an understanding of the concept behind the question as indicated by the correct formula for “formula, set-up, & answer” questions. HOWEVER, THERE IS AN EXCEPTION: no credit will be provided for a simple re-write of a formula that is copied from the Reference Sheets of the Exam **without** showing the NUMERICAL inputs of the “set-up.” Partial credit can be provided for “short answer” questions if some of the key concepts are correctly identified. Partial credit is ½ of the available points; it will not be more or less. Some questions will NOT be eligible for partial credit; these questions will be clearly indicated on the Exam.
- Full credit: all aspects are correct and complete without error. For quantitative questions, this will involve the correct formula, correct “set-up”, and correct answer. For short-answer questions, this will involve the identification of the correct concept sought by the question without any conflicting or contradictory comments. Furthermore, the correct answer to short-answer questions will be specific and bullet-pointed without a meandering, dawdling paragraph.
- Quantitative Problems will typically request a “formula, set-up, & answer” response. You must provide these three (3) elements correctly to receive full credit. First, you must write the correct formula. Second, you must place the correct numbers within the formula. Third, you must provide the correct answer. If any of these three elements are incorrect, full credit will NOT be provided.
- Qualitative or Short Answer Problems will typically request a short answer in bullet point form without any contradictions. If you provide a contradictory response, full credit will NOT be provided.

V. REGISTRATION

1. **YOU** are responsible for seeing that you are properly registered for the course. You must register to attend and receive credit for work completed in class. Conversely, if you decide to drop this class, please ensure that you are really dropped from this course’s registration. Otherwise, I am required to give you zero credit or a failing grade. There will be absolutely no Incomplete Grades provided in this Course Section.

VI. ACADEMIC INTEGRITY

Refresh your memory by your perusal of the Graduate College catalog, particularly the section titled, “Guidelines of Academic Integrity.” The following violations of academic integrity will result in, at the minimum, an F grade for the course:

- a. Copying from another student during an examination.
- b. Consulting unauthorized notes during an examination, including material stored in an electronic device.
- c. Exchanging information with another student during an examination.
- d. Knowingly representing writings composed by someone else as your own.
- e. Supplying the professor with false statements to excuse absences from class or examinations.
- f. Utilization of cell phones, tablets, laptops, or any electronic device considered unacceptable by me during an examination.

VII. MISCELLANEOUS

1. You may use cell phone videos or tape recorders in this class to assist your note taking. However, it has been my experience that written notes help more than total/heavy reliance on video or audio notes.

2. **If you do not have a financial calculator, please get one!** I expect YOU to know how to calculate bond prices, YTMs, bond discounts, PVs, FVs, etc. I will NOT be teaching you how to operate YOUR calculator.

3. Cell Phones: If you carry a cell phone, please put on “vibrate” or “silent” before entering the classroom. If your phone rings, you will be asked to TURN OFF the cell phone or LEAVE the classroom.

4. Office Hours: If you are having trouble with the course, **please do not hesitate to see me** before or after the lecture. If such times are not convenient for you or me, then please send me an e-mail noting your availability and we will arrange a mutually agreeable time to discuss the course.

5. Any student with a **documented** disability needing special accommodations is requested to speak directly to me as early as possible in the semester, preferably in the first week of class PRIOR to 07 SEPT 2012. You must provide to me a copy of your "Letter of Accommodation" prior to 07 SEPT 2012. After consultation with me, you must schedule dates & times with the Disability Resource Center no less than one (1) week prior to the Course's scheduled Examination Dates.

COURSE OVERVIEW – not complete, only an Overview

- How to apply the Discounted Cash Flow methodology?
- How to determine the appropriate Discount Rate?
- How to determine the relevant Cash Flows?
- How to determine the suitable Time Period?
- How to value the project/investment/firm in Perfect Markets?
- How to value the project/investment/firm in Imperfect Markets?

Below is the Basic Equation of Finance 500, which will be examined in several different contexts and applications. All other concepts will build upon this Basic Equation.

Present Value or PV =

$$\sum_{t=0}^n \frac{CF_t}{(1+r)^t}$$

PV = Present Value at time 0

t = specific period of time

n = total number of time periods

CF_t = future Cash Flow at time t

r = "discount rate" or the rate by which you discount the associated future cash flows

- Chapter 1 – Introduction to Finance
 - Enhance the Value of Shareholders' Equity
 - Enhance the Value of the Overall Firm
 - Enhance the Value of the Stakeholders' Interests in the Overall Firm
- Chapter 2 – Time Value of Money
 - Present Value, Future Value, Net Present Value, Annuities, Growth Rates, Time Periods
 - Amortization Tables
 - Discounting by periods other than annual – daily, monthly, quarterly, semiannually, etc.
- Chapter 3 – What Does It Cost? Internal Rate of Return & Time Value of Money
- Chapter 4 – Introduction to Capital Budgeting
 - Net Present Value – know the DIFFERENCE between PV and NPV
 - Internal Rate of Return – how many different IRRs are possible?
 - Profitability Index
 - Payback Method
- Chapter 5 – Issues in Capital Budgeting
- Chapter 6 – Choosing a Discount Rate
 - WACC and APV formulas
 - Significance of Interest Tax Shields (ITS) and Presence in both WACC and APV
 - Three Different WACCs: Pre-Tax Unadjusted WACC, After-Tax Unadjusted WACC, and After-Tax Adjusted WACC
- Chapter 7 – Using Financial Planning Models for Valuation
 - Pro-forma Template Formula
 - Integration of Discounted Cash Flows and Discounted Terminal Value
- Chapter 8 – What is Risk?
- Chapter 9 – Statistics for Portfolios
 - Usage of Beta and Required Rate of Return – compare to Expected Rate of Return
- Chapter 10 – Portfolio Returns & the “Efficient Frontier”
 - Correlation, Beta, Efficient Markets, & Importance of Arbitrage
- Chapter 11 – Capital Asset Pricing Model (“CAPM”) & Security Market Line (“SML”)
 - Efficient Market Hypothesis: Strong, Semi-Strong, & Weak
 - Importance of Arbitrage to Efficient Markets
- Chapter 13 – Security Market Line & Cost of Capital
- Chapter 14 – Efficient Markets: Some General Principles of Security Valuation
- Chapter 16 – Valuing Stocks
 - Returns-on-Equity, Price/Earnings multiple (levered & unlevered), & Present Value of Growth Opportunities
- Chapter 17 – Capital Structure & Value of the Firm
 - M&M #1 and M&M#2 in Perfect Markets

- Chapter 18 – Evidence on Capital Structure
- Chapter 19 – Dividend Policy
 - Signaling Theory by Company Management to Outside Investors
 - Pecking Order – how to finance new investments by using either new debt or new equity
- Chapter 20 – Introduction on Options
 - Value from the “shut down” choice; value from this option
 - What factors affect option values?
 - Present Value of the Security/Project/Investment with the ability to “shut down”
 - Strike Price or the PV of the Security/Project/Investment with no ability to “shut down”
 - Time to Expiration
 - Volatility of the Cash Flows’ Returns
 - Risk Free Rate, which is related to the Discount Rate of the DCF

SAMPLE COVER PAGE FOR THE OPTIONAL & COMPREHENSIVE “MAKE-UP” EXAMINATION OF DECEMBER 10, 2012

I, (your name), am taking the Optional & Comprehensive “Make-Up” Examination of 10 DEC 2012. By submitting my “Make-Up” Examination for grading, I understand and accept that I am forfeiting all my grades received from the previous Mid-Term Exams, if any. In addition to forfeiting any and all grades from the prior Mid-Term Exams, I understand and accept that the grade from the Optional “Make-Up” Exam will be solely my course grade. I understand and accept there is no alternative after I submit my Exam for grading.

Your Name

Your UIC #

Date of Examination

INSTRUCTOR'S BIOGRAPHY

RANDY L. ADAMS

- Adjunct Lecturer of Finance at the University of Illinois at Chicago
- Chief Investment Officer at BankNote Capital
- Over 23 years of investment management and research experience
 - BankNote Capital
 - Morgan Stanley
 - Northern Trust
 - Securities Corporation of Iowa (acquired by Wells Fargo in 2001)
 - Firststar Banks (acquired by U.S. Bank in 2001)
- MBA, University of Chicago
- BBA, University of Iowa
- Chartered Financial Analyst
- Certified Public Accountant, Illinois

Mr. Adams has been an Adjunct Lecturer of Finance at the University of Illinois at Chicago since 2001. He has taught the following undergraduate and graduate courses: Finance 310 Investments, Finance 430 Money & Banking, Finance 431 Theory & Structure of the Financial Markets, Finance 500 MBA Introduction to Corporate Finance, and Finance 530 CMBA Money & Banking (Monetary Economics).

He is the Chief Investment Officer at BankNote Capital, assisting six community banks in credit research, fixed income portfolio management, and asset/liability management. He joined BankNote in 2008 and brings over 23 years of investment management and research experience.

Previously, he was a Vice President & Investment Representative in Morgan Stanley's Private Wealth Management Group in Chicago from 2006 to 2008. He had discretionary authority to manage portfolios for high-net worth clients and endowments through equities, equity options, convertibles, fixed income, commodity/currency ETFs, and cash equivalents. He created and managed a hedge fund of funds replication strategy for select clients.

From 1996 to 2006, he was a Vice President & Portfolio Manager at the Northern Trust Company in Chicago. As a portfolio manager, he managed balanced portfolios of growth-oriented stocks and investment-grade bonds for high net worth clients, family foundations, and educational endowments.

Prior to the Northern Trust, he spent two years (1994 – 1996) at Securities Corporation of Iowa as an Assistant Vice President in the Equity Research Department. As a stock analyst, he covered companies in the health care, technology, and financial services industries.

From 1989 to 1994, he was an Investment Officer & Portfolio Manager at Firststar Banks in Cedar Rapids and Des Moines, Iowa. During his time at the Cedar Rapids bank, he assisted the bank's portfolio manager with municipal credit research and mortgage-backed security pricing.

Mr. Adams received his BBA degree in finance from the University of Iowa and an MBA degree in accounting and marketing from the University of Chicago Graduate School of Business. He has been a Chartered Financial Analyst (CFA) since 1992 and a Certified Public Accountant (CPA) since 2005. He is a member of the CFA Institute, CFA Chicago Society, and the Illinois CPA Society.