****

**33:390:400: Corporate Finance Dr. Cheng-Few Lee**

Spring 2018 Room 5188, 100 Rock

BRR 5073

Monday and Thursday 12:00 – 1:20 cflee@business.rutgers.edu

Office Hours: Monday 2:00 - 3:30 pm or by appointment

**COURSE DESCRIPTION**

Corporate Financeis concerned with how to make capital investment decisions (capital budgeting) and how to finance company activities, including new investments, and how to make dividend payment decisions. This course will lecture on important topics for corporate finance, which will cover methods, theory, and policy decisions. The topics which will be addressed in the course are: how streams of cash flows are valued, how financial managers evaluate investment opportunities, how financial statements are used to evaluate a company's financial condition and its market value, how a manager chooses between mutually exclusive opportunities, and how they evaluate different types of investment. This course will also discuss the treatment of risk when evaluating a project and the required returns on a project. Alternative source of funds used to finance new projects, which include internal and external sources of funds, will be theoretically and empirically demonstrated. In addition, option strategies and theory and their applications to evaluate convertible bonds will be discussed in some detail. Lastly, long-term and short-term financial planning will be discussed.

**COURSE MATERIALS**

* Required textbooks:

 1. Financial Analysis, Planning, and Forecasting

 by John C. Lee, and Cheng F. Lee

 World Scientific Publishing Co., 3rd Edition, 2017

 2. Corporate Finance: Theory, Method, and Applications

 by Cheng F. Lee, and Joseph E. Finnerty

 Harcourt College Pub, 1990.
This book is currently under a contract to be published as a second edition by World Scientific. It will be published in 2019. Some chapters of this book will be put on Blackboard.

* Reference textbooks:

 1. Corporate Finance

 by Stephen Ross, Randolph Westfield, and Jeffrey Jaffe

 McGraw-Hill, 11th Edition, 2015

 2. Fundamentals of Corporate Finance Standard Edition

 by Stephen Ross, Randolph Westfield, and Bradford Jordan

 McGraw-Hill, 9th Edition, 2009

 3. From East to West: Memoirs of a Finance Professor on Academia, Practice, and Policy
 By Cheng-Few Lee, World Scientific, 2017
 Chapter 7 "Teaching Method and Educational Philosophy", Chapter 9 "Innovative and Active Approach to Teaching Finance"

 These two chapters can be found here: http://www.worldscientific.com/worldscibooks/10.1142/10182

- Check Blackboard ([blackboard.rutgers.edu](https://blackboard.rutgers.edu/webapps/portal/frameset.jsp)) and your official Rutgers email account regularly.

**LEARNING GOALS AND OBJECTIVES**

- This course is designed to help students develop skills and knowledge in the following area(s):

1. Financial statement analysis, which includes analyzing for financial statement and financial ratios.

2. Theoretical and empirical evaluation bond and stock.

3. Capital budgeting under certainty and uncertainty.

4. Option strategy and theory and its application to evaluate convertible bonds.

5. Interaction among investment, financing, dividend, and production policies.

6. Short term and long term financial plannings.

- Students who complete this course will demonstrate the following:

1. Students can use financial statement analysis to determine companies' market value. In addition, students can re-enforce their knowledge of accounting.

2. Students can use accounting information, market information, and economic information to determine the value of bonds and stock. In addition, they will learn what is the timing of issue of either bond or stock.

3. Based upon capital budgeting under certainty knowledge, which they have learned from previous courses, students can more realistically perform capital budgeting decision, which also considers both market and economic environment.

4. Students are going to know how to use option strategy to trade options. In addition, they will be able to use option theory to evaluate convertible bonds, which will be compared to a traditional approach to evaluate convertible bonds.

5. Students will be able to evaluate whether companies use appropriate investment, financing, dividend, or production policies.

6. Students will be able to do working capital management and long term financial planning and forecasting.

- Students develop these skills and knowledge through the following course activities and assignments:

This course will have homework assignments, two tests, and a project. In addition, I will use Johnson & Johnson and other companies as examples to show how the above mentioned objectives can be achieved.

**PREQUISITES**

For students to take this course, they need to complete a financial managing course. If possible they should be taking the Investment Analysis course in the same semester. This course will spend approximately 30 percent of the time reviewing their knowledge learned from Financial Management and it will use about 70 percent of the time to build upon their knowledge from previous courses. In addition, some brand new topics such as option strategy and theory and their applications will be discussed.

**ACADEMIC INTEGRITY**

I do not tolerate cheating. Students are responsible for understanding the RU Academic Integrity Policy (<https://slwordpress.rutgers.edu/academicintegrity/wp-content/uploads/sites/41/2014/11/AI_Policy_2013.pdf>)

I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must sign the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” Don’t let cheating destroy your hard-earned opportunity to learn. See [business.rutgers.edu/ai](http://www.business.rutgers.edu/ai) for more details.

**ATTENDANCE AND PREPARATION POLICY**

- Expect me to attend all class sessions. I expect the same of you. If I am to be absent, my department chair or I will send you notice via email and Blackboard as far in advance as possible. If you are to be absent, report your absence in advance at <https://sims.rutgers.edu/ssra/>. If your absence is due to religious observance, a Rutgers-approved activity, illness, or family emergency/death and you seek makeup work, also send me/TA an email with full details and supporting documentation within 3 days of your first absence. For job interviews students can be also be excused.

- Each student should sign in to show their attendance.

- For weather emergencies, consult the campus home page. If the campus is open, class will be held.

- Expect me to arrive on time for each class session. I expect the same of you. If you are going to be tardy, then your grade will be penalized.

- Expect me to remain for the entirety of each class session. I expect the same of you. If you are going to leave early, then you will be counted as absent, unless you have a good excuse and tell me in advance.

- Expect me to prepare properly for each class session. I expect the same of you. Complete all background reading and assignments. You cannot learn if you are not prepared. The minimum expectation is that for each 80-minute class session, you have prepared by studying for at least twice as long.

- Expect me to participate fully in each class session. I expect the same of you. Stay focused and involved. You cannot learn if you are not paying attention.

**CLASSROOM CONDUCT**

When you are in class you cannot use either cell phones or notebooks to perform activities that are not related to class materials.

**EXAM DATES AND POLICIES**There are 2 exams in this course:

Midterm Exam: March 8, 2018. The midterm will include terms, an essay, and calculations. The test will be open book. In addition, the midterm will be 20 percent take-home and 80 percent class test.

Final Exam: The date and time of the final exam will follow the university's schedule. The final exam will terms, an essay, and calculations. The test will be open book. In addition, 20 percent will be a take-home test and the remaining 80 percent will be done in class.

During exams, the following rules apply:

My exams will be open book and open notes, however, you cannot talk to other students in the class during the exam. In addition, please note that my exams taken in class are semi-take home tests. In other words, you need to be well-prepared before you come to class. Therefore, if you don't prepare and try to find the answer from the book or your notebook you will not do well on the exams.

 - If you have a disability that influences testing procedures, provide me an official letter from the Office of Disability Services at the start of the semester.

 - No cell phones or other electronics are allowed in the testing room.

 - You must show a valid Rutgers photo ID to enter the room and to turn in the exam.

 - Alternate seating; do not sit next to another student or in your usual seat.

 - Use the bathroom prior to the exam start; bathroom breaks, if essential, will be escorted.

 - Your exam will not be accepted unless you sign the Honor Pledge.

**GRADING POLICY**

Course grades are determined as follows:

 Midterm Exam ......................... 20%

 Final Exam .............................. 30%
 Projects ......................................20%

 Homework …………………....20%

 Class Performance …………...10%

**COURSE SCHEDULE**

Spring Break: March 10 to March 18

|  |  |  |
| --- | --- | --- |
| January 18 | Introduction | LL: Chapter 1LF: Chapter 1 |
| January 22, January 25 | Accounting Information, Regression Analysis, and Financial Management | LL: Chapter 2LF: Chapter 2 |
| January 29, February 1 | Valuation and Capital Structure: A Review and Integration | LL: Chapter 6, 7LF: Chapters 4, 9 |
| February 5, February 8 | Market Model and CAPM | LL: Chapters 5, 8, 9LF: Chapters 6, 7 |
| February 12, February 15 | Cost of Capital and Capital Budgeting Under Certainty | LL: Chapters 12, 13LF: Chapters 5 |
| February 19, February 22 | Capital Budgeting Under Uncertainty | LL: Chapter 14LF: Chapter 8 |
| February 26, March 1, March 5, March 8 | Financial Planning and ForecastingAlternative Growth-Rate Estimates(Handout will be handed out as a supplement.) | LL: 24.1 to 24.4LFN: Chapter 5 |
| March 19 | Review |  |
| March 22 | Midterm Exam |  |
| March 26, March 29 | a. Option-Pricing Theory and Firm Valuationb. Options, Futures, and Swaps | LL: Chapters 11LFN: Chapter 21 |
| April 2, April 5 | Financing, Investment, and Dividend Policies | LL: Chapters 17, 18LF: Chapter 12 |
| April 9, April 12 | Leasing | LL: Chapter 15LF: Chapter 17 |
| April 16, April 19 | Mergers: Theory and Evidence | LL: Chapter 16LF: Chapter 22LFN: Chapter 22 |
| April 23, April 26 | Bankruptcy, Workouts, and Corporate Reorganization | LFN: Chapter 23 |
| April 30 | Review |  |

**SUPPORT SERVICES**If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. <https://ods.rutgers.edu>

If you are a military *veteran* or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of *mental health* services, please use our readily available services.

[Rutgers Counseling and Psychological Services – New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of *physical health* services, please use our readily available services.

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of *legal* services, please use our readily available services: <http://rusls.rutgers.edu/>

If you are in need of additional *academic assistance*, please use our readily available services.

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]