

UC - Davis  
Graduate School of Management

Management 205  
Financial Theory and Policy

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1. General Information

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Office Hours: drop in or by appointment.

2. Course Description

This is an MBA level introductory course in Corporate Finance. We will learn about how firms make investment and financing decisions. By the end of the quarter, students should be well-grounded in the basic tools of corporate finance including: net present value calculations, estimating cost of capital, financing choices available to the firm, distribution policies available to the firm, and the evaluation of investments available to the firm.

3. Prerequisites

The readings and lectures presume a good working knowledge of statistics (through linear regression techniques). If you have any doubts about your statistical background, you should consult the instructor as soon as possible. In addition, it is assumed that students have a strong foundation in accounting.

4. Textbooks, Problem Solutions, and Class Handouts

The textbook for this course is Corporate Finance, 9<sup>th</sup> edition, by Ross, Westerfield, and Jaffe.

Lecture notes will be made available on the course web page. Students should check the web site and download lecture notes prior to each class.

5. Course Requirements

A. Quizzes: 30% of course grade

You will take online multiple choice quizzes throughout the quarter. The quizzes are posted on the assignments section of the course page on Smartsite. **Students MUST complete quizzes by the due date.** Please be aware of Smartsite maintenance when planning.

Your lowest quiz score will be dropped.

B. Final Examination: 40% of course grade

Exam is closed book and closed notes.

C. Homework: 30% of course grade

There are two homeworks required during the quarter. Each assignment is a case study about a topic that we will cover in class.

Homeworks should be completed in groups of 3-6 students. Instructions for submitting homeworks and due dates will be provided in the assignment instructions.

6. Quiz/Exam Make-Up Policy

If a student is unable to take the final during the scheduled exam time for personal or professional reasons, that student must provide a written request to make alternative arrangements at least one week prior to the scheduled exam. Students will not be allowed to make up the exam after the scheduled exam has been administered.

7. Reading List and Topic Sequence

Textbook: Corporate Finance, Ross, Westerfield, and Jaffe (Irwin, 9<sup>th</sup> Edition, 2009)

Specific reading assignments will be announced one class session in advance on the class outlines. The reading assignment should be completed before the class meets. The course will follow the general sequence set out below, though this outline may be modified during the course of the quarter.

Management 205 -- Financial Theory and Policy  
**TENTATIVE** Class Schedule  
 UC Davis Daytime MBA Program

<b>Class</b>	<b>Date</b>	<b>Day</b>	<b>Textbook Reading</b>	<b>Topic</b>
1	January 5	Tues	1-2 4	Intro to Corp Fin and Financial Statements DCF Valuation
2	January 12	Tues	5 6	NPV and Alternatives <sup>1</sup> Making Capital Investment Decisions
3	January 19	Tues	7	Making Cap'l Inv't Decisions (cont'd) Decision Trees and Sensitivity Analysis <sup>2</sup>
4	January 26	Tues	8-9 10	Stock and Bond Valuation Lessons from Market History
5	February 2	Tues	11	The Capital Asset Pricing Model CAPM (What is Equilibrium?)
6	February 9	Tues	13	The Cost of Capital (What is a Fair Rate of Return?)
7	February 16	Tues	14	Market Efficiency (Ethical Considerations and Insider Trading)
8	February 23	Tues	15-16 17	Capital Structure and Long-Term Financing Capital Budgeting for the Levered Firm <sup>3</sup>
9	March 2	Tues	20 <sup>4</sup> 22	Venture Capital; Issuing Equity Options and Corporate Finance <sup>5</sup>
10	March 9	Tues		Summary
	March 16	Tues		FINAL EXAM

### Suggested End-of-Chapter Problems

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- <sup>1</sup> Skip 5.6 (The Profitability Index)  
<sup>2</sup> Skip 7.2 (Monte Carlo Simulation)  
<sup>3</sup> Skip 17.9 (Personal Taxes)  
<sup>4</sup> Skip 20.8 (The Rights Puzzle)  
<sup>5</sup> Just sections 22.1 to 22.7.

To reinforce material that is covered in class, you should review the following end-of-chapter problems.

**NOTE: These end-of-chapter problems are for the 9th edition of Corporate Finance, RWJ.**

**I recommend reviewing all end-of-chapter “Concept Questions.” The following are recommended end-of-chapter “Problems and Questions.”**

Chapter	Title	Problems & Homework
1	Introduction to Corporate Finance	None
2	Financial Statements and Cash Flow	3, 4, 8, 13
4	DCF Valuation	3-5, 21, 23, 26, 34, 39, 54, 58
5	NPV and Other Investment Rules	5, 11, 14
6	Making Capital Investment Decisions	2, 10, 15, 17, 21
7	Risk Analysis, Real Options...	7, 13
8	Interest Rates and Bond Valuation	1, 2, 5, 13
9	Stock Valuation	4, 10, 13, 24, 25
10	Lessons from Market History	17, 18, 23
11	The Capital Asset Pricing Model	4, 8, 11, 18, 19, 28, 31, 35
13	Risk, Cost of Capital, ...	1, 4, 7, 9, 13, 18
14	Efficient Capital Markets	Just concept questions
15	Long-Term Financing	1-4
16	Capital Structure	1-3, 12, 16
17	Limits to the Use of Debt	1-3, 6
20	Issuing Securities to the Public	4-7, 11-12
22	Options and Corporate Finance	2, 6-7