**USC Marshall School of Business**

**BUAD 306 – Business Finance, Sections 14787R and 14791R, Fall 2021**

14791R, Tuesdays 14:00-15:50 PDT  
14787R, Tuesdays 16:00-17:50 PDT

**Professor:** Ricardo De la O  
**Office:** HOH803  
**Office Phone:** ----------  
**Email:** rdelao@marshall.usc.edu

**Professor:** Katya Neretina  
**Office:** HOH711  
**Office Phone:** +1 (213) 740-6538  
**Email:** neretina@marshall.usc.edu

**Professor Office Hours:**  
(At least initially) All office hours will be via Zoom. Link on Blackboard  
For the first half of the course: Mondays 1:00-3:00pm, Tuesdays 18:00-19:00, Thursdays 11:00-12:00pm PDT  
No office hours on school holidays.

**TAs:** Ethan Fu (ethanfu@usc.edu), Niko Lekhraj (lekhraj@usc.edu). Milena van der Reis (vanderre@usc.edu), John Shepherd (jmshephe@usc.edu), Rohan Varghese (rohanvar@usc.edu), Christy Zheng (christyz@usc.edu)

**TA Office Hours:** via Zoom, please see Blackboard announcements  
**TA Slack Channel:** details TBA, please see Blackboard announcements.

**Course Description**
BUAD 306 is a fundamentals course in business finance. Finance is a way of thinking about and analyzing economic problems that involve uncertainty over time. This course provides an introductory framework of how financiers think, how they break down components of a financial problem, and how they make decisions as investors and corporations in financial markets. By the end of the semester, you will know and use financial vocabulary, financial theory, and financial analysis to solve financial problems, value assets, assess financial risk, make financial decisions and evaluate corporate financial strategy.

**Learning Objectives**
Through lecture, case analysis, worked samples, and application of financial formulas and functions, you will be able to:

1. Describe types and features of common financial assets.  
2. Summarize the efficient market hypothesis and describe its relevance.  
3. Explain the concept and apply the formulas related to the time value of money.  
4. Apply DCF valuation in a range of contexts.  
5. Interpret, apply and use accounting statements in financial analysis.  
6. Explain and apply capital budgeting criteria.  
7. Explain and apply a modern risk-return framework.  
8. Calculate costs of capital.  
9. Explain and analyze key corporate financial policies and tradeoffs.

**Required Materials**
**Prerequisites and/or Recommended Preparation:**  
Business microeconomics (BUAD 351 or ECON 351x) is a prerequisite. A prior class in financial accounting (e.g., ACCT 410x, BUAD 280 or BUAD 305) is not a formal prerequisite, but is **highly recommended**. A prior or concurrent class in statistics (e.g., AP Statistics, BUAD 310 or BUAD 312) is not a formal prerequisite, but is **highly recommended**. A prior or concurrent class in macroeconomics (e.g., AP Macroeconomics, ECON 205, BUAD 352 or ECON 352x) is **recommended**.

**Course Notes:**  
Additional course materials are accessed via Blackboard ([blackboard.usc.edu](http://blackboard.usc.edu)).

**Grading Summary**  
The final grade has four components:

<table>
<thead>
<tr>
<th>Assessment</th>
<th>% of Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Homework and Async Assignments</td>
<td>25%</td>
</tr>
<tr>
<td>Quizzes</td>
<td>15%</td>
</tr>
<tr>
<td>Midterm</td>
<td>30%</td>
</tr>
<tr>
<td>Final</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Three items are considered when assigning final grades:
1. Your score as a percentage of the available points for all assessments (the points you receive divided by the number of points possible).
2. Your overall average percentage score within the class. (Individual components may be normalized before aggregating.)
3. Your ranking among all students in the class.

Your grade will not be based on a mandated target, but on your performance. The mean grade for this class is expected to be about a B+. Typically, about one third of the students will receive an A or A-. About one half of the students will receive a B+, B or B-. The remaining one sixth of the students will receive a C+ or lower.

**Grading Details and Assignments**

1. **Midterm and Final Exams.** Exams will be administered in-person. Details regarding the testing protocol and allowed materials will be provided. At minimum, you will be provided with any relevant equations (and some irrelevant ones).

   **Exam Absence Policy:** Students are required to take the midterm and final during the arranged administration period. If you are not able to take the midterm and final on the dates specified in the schedule, you should not take this class.

   There will be no make-up exams. However, there are legitimate reasons for missing an exam. If you provide documentation of serious medical problems or crime incidents for missing a test, your grade will be based on the score of the remaining assessments. If you miss more than one test, additional missed tests will be scored as a zero, unless a mark of INCOMPLETE is warranted.

2. **Quizzes.** Short (e.g., 10-minute) quizzes will be given at the end of most in-person (i.e., synchronous) class sessions. There will be 10-12 quizzes during the semester. Your lowest two quiz scores will be dropped and the remaining scores will be used for the quiz portion of the final grade.

3. **Assignments.** There will be assignments posted to Blackboard during the course. Assignments are assessed on a C/NC basis on the due date. Assignments are designed as part of the asynchronous
learning and to provide practice material during the course. Answers to the homework will be posted online for students to evaluate their performance.

**Assignment Submission Policy:** Assignments must be turned in on the due date/time electronically via Blackboard. (Asynchronous assignments are typically due by the start of our in-person class session each week.) Any assignment turned in late will not receive full credit. If you have connectivity issues please contact your instructor or TA as soon as possible. Late or not, you are expected to complete all required assignments to pass this course. Late assignments will nominally receive 50% credit.

**COURSE CALENDAR**

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td><strong>Welcome and Introduction</strong></td>
<td>• attend class and participate</td>
</tr>
<tr>
<td>Aug 24</td>
<td><strong>Introduction to Financial Assets and Markets:</strong> Bond Features, Bond Types, Bond Markets, Stock Features, Stock Types, Stock Markets, other Financial Markets, Efficient Markets Theory</td>
<td>• complete any follow-up exercises posted on Blackboard</td>
</tr>
<tr>
<td>Synchronous</td>
<td>• Financial Assets and Financial Markets Overview</td>
<td>• read RWJ chapter sections 7.2-7.5, 8.2-8.3, 12.6 (32 pages)</td>
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<tr>
<td></td>
<td>• Efficient Markets Theory</td>
<td>• read RWJ chapter 5 (25 pages)</td>
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<tr>
<td></td>
<td>• Time Value of Money</td>
<td>• watch videos and do exercises posted on Blackboard</td>
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<tr>
<td>Week 2</td>
<td><strong>Time Value of Money 1:</strong> Discount Rates, Present Value, Future Value, Solving for Time and Discount Rate, Compounding and Compounding Periods</td>
<td>• attend class and participate</td>
</tr>
<tr>
<td>Aug 31</td>
<td>• Time Value of Money</td>
<td>• complete any follow-up exercises posted on Blackboard</td>
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<tr>
<td>Synchronous</td>
<td>• Discounted Cash Flow Valuation</td>
<td>• read RWJ chapters 6 (34 pages)</td>
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<td></td>
<td>• watch videos and do exercises posted on Blackboard</td>
<td>• watch videos and do exercises posted on Blackboard</td>
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<tr>
<td>Week 3</td>
<td><strong>Time Value of Money 2:</strong> Annuity and Perpetuity Formulas, Growing Annuity and Perpetuity Formulas, Amortization, EAR vs APR</td>
<td>• attend class and participate</td>
</tr>
<tr>
<td>Sep 07</td>
<td>• Bond Valuation including Term Structure of Interest Rates</td>
<td>• complete any follow-up exercises posted on Blackboard</td>
</tr>
<tr>
<td>Synchronous</td>
<td>• Stock Valuation</td>
<td>• read RWJ sections 7.1, 7.6-7.7 and 8.1 (28 pages)</td>
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<td>• watch videos and do exercises posted on Blackboard</td>
<td>• watch videos and do exercises posted on Blackboard</td>
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<tr>
<td>Week 4</td>
<td><strong>Valuing Bonds and Stocks:</strong> Zero Coupon Bond Valuation, Coupon Bond Valuation, Bond Price Dynamics and Concept of Duration, Zero Growth Stock Valuation, Gordon Growth Model, Preferred Stock Valuation. Advanced Topics: Term Structure of Interest Rates including Yield Curve, Fisher Equation, Spot Rates, Forward Rates</td>
<td>• attend class and participate</td>
</tr>
<tr>
<td>Sep 14</td>
<td>• complete any follow-up exercises posted on Blackboard</td>
<td>• complete any follow-up exercises posted on Blackboard</td>
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<tr>
<td>Synchronous</td>
<td></td>
<td>• watch videos and do exercises posted on Blackboard</td>
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<tr>
<td>Week</td>
<td>Asynchronous</td>
<td>Synchronous</td>
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<tr>
<td>Week 4</td>
<td>• Investment Criteria and Project Cash Flows</td>
<td>• read RWJ sections 9.1, 9.5-9.8, 10.1-10.2 (30 pages)</td>
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<tr>
<td>Week 5</td>
<td>Capital Budgeting Decision Criteria: NPV, IRR, MIRR, Profitability Index, Incremental Cash Flows</td>
<td>• attend class and participate</td>
</tr>
<tr>
<td>Sep 21</td>
<td>• Financial Statement Review</td>
<td>• read RWJ chapters 2 and 3 (50 pages)</td>
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<tr>
<td>Week 5</td>
<td>• Working with Financial Statements</td>
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<tr>
<td>Sep 28</td>
<td>• Pro Forma Financial Statements</td>
<td>• read RWJ sections 4.2-4.3 10.3, 10.6-10.7 (20 pages)</td>
</tr>
<tr>
<td>Week 6</td>
<td>• Cash Flows for Project and Firm Valuation</td>
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<tr>
<td>Week 7</td>
<td>Using Financial Statements to Estimate Project and Firm Cash Flows: Pro Forma Financial Statements, Cash Flow to Assets, Cash Flow to Equity, Projects with Unequal Lives</td>
<td>• attend class and participate</td>
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<tr>
<td>Oct 05</td>
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<tr>
<td>Week 7</td>
<td>Midterm Preparation</td>
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<tr>
<td>Week 8</td>
<td>Midterm Exam</td>
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<tr>
<td>Oct 12</td>
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<tr>
<td>Week 8</td>
<td>• Capital Market History</td>
<td>• read RWJ sections 12.1-12.5 and sections 13.1-13.3 (34 pages)</td>
</tr>
<tr>
<td>Asynchronous</td>
<td>• Mean-Variance Framework</td>
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</tbody>
</table>
| Week 9  | Synchronous  | Capital Market History and Mean-Variance Framework: Historical Record of Returns, Realized Returns, Average Returns, Expected Returns, Excess Returns, Variability and Standard Deviation of Returns. Individual Securities vs Portfolios. Introduction to Diversification. | • attend class and participate  
• complete any follow-up exercises posted on Blackboard |
|---------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Week 9  | Asynchronous | • Systematic and Unsystematic Risk  
• Beta, CAPM and the SML  
• Risk and the Cost of Capital | • read RWJ sections 13.4-13.9 (18 pages)  
• watch videos and do exercises posted on Blackboard |
| Week 10 | Synchronous  | Risk Decomposition and the Capital Asset Pricing Model: Portfolio Weights and Returns, Diversification, Systematic vs Unsystematic Risk, Beta, Portfolio Beta, Security Market Line, Reward to Risk Ratios (Sharpe Ratio, Treynor Ratio), Capital Asset Pricing Model (CAPM) | • attend class and participate  
• complete any follow-up exercises posted on Blackboard |
| Week 10 | Asynchronous | • Cost of Capital | • read RWJ Chapter 14 and sections 16.1-16.3 (32 pages)  
• watch videos and do exercises posted on Blackboard |
| Week 11 | Synchronous  | Weighted-Average Cost of Capital and Financial Leverage: Debt Cost of Capital, Default and Credit Risk, Bond Ratings, Equity Cost of Capital Using CAPM. WACC, Divisional and Project Costs of Capital, Financial Leverage Impacts on Cost of Debt, Equity and WACC | • attend class and participate  
• complete any follow-up exercises posted on Blackboard |
| Week 11 | Asynchronous | • Corporate Governance  
• Financial Planning and External Financing Needs | • read RWJ sections 1.1, 1.3-1.6, 4.1, 4.4, 18.2 (26 pages)  
• watch videos and do exercises posted on Blackboard |
| Week 12 | Synchronous  | Corporate Governance: Corporate Governance Structure, Principal-Agent Problems, Incentives, Best Practices in Corporate Governance  
Financial Planning and EFN: External Funds Needed, Cash Conversion Cycle, Internal and Sustainable Growth Rates | • attend class and participate  
• complete any follow-up exercises posted on Blackboard |
| Week 12 | Asynchronous | • Capital Structure Policy | • read RWJ sections 16.4-16.11 (25 pages)  
• watch videos and do exercises posted on Blackboard |
<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Synchronous</th>
<th>Asynchronous</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Nov 16</td>
<td>Capital Structure Policy: M&amp;M Capital Structure Propositions I&amp;II with and without Corporate Taxes, Bankruptcy Costs, Optimal Capital Structure, Bankruptcy Liquidation versus Reorganization.</td>
<td>• make sure you are caught up on all the reading and videos • work on chapter 16 practice problems</td>
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<tr>
<td>13</td>
<td>Nov 16</td>
<td>• Capital Structure Policy</td>
<td></td>
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<tr>
<td>14</td>
<td>Nov 23</td>
<td>Extra class time, only if needed to cover remaining material on prior weeks</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Nov 23</td>
<td>• Dividends and Payout Policy</td>
<td>• read RWJ chapter 17 (28 pages) • watch videos and do exercises posted on Blackboard</td>
</tr>
<tr>
<td>15</td>
<td>Nov 30</td>
<td>Dividends and Payout Policy: Cash dividends, Stock Repurchases, High vs Low Payouts - Pros and Cons</td>
<td>• attend class and participate • complete any follow-up exercises posted on Blackboard</td>
</tr>
<tr>
<td>15</td>
<td>Nov 30</td>
<td>Final Exam Preparation</td>
<td>• attend (optional) Zoom session • study for midterm</td>
</tr>
<tr>
<td>Final Week</td>
<td></td>
<td>Final Exam</td>
<td>• day/time as designated by official university schedule</td>
</tr>
</tbody>
</table>

Please note: The date/time of the Final Exam is determined by the University. For the date and time of the final for this class, consult the USC Schedule of Classes at [www.usc.edu/soc](http://www.usc.edu/soc). Select the corresponding semester to view and click on the “Final Examinations Schedule” link on the left side of the screen.
ADDITIONAL INFORMATION

Teaching Assistants
The teaching assistants are listed on Blackboard. The TAs will hold regular office hours and can answer questions on the material during office hours or via email.

Marshall Academic Resources
The Marshall Office of Undergraduate Advising & Student Affairs offers free Core Review Sessions, along with additional “Cracking the Core” workshops, as a supplement to classroom instruction. Marshall Peer Academic Leaders (PALs) assist students in understanding and clarifying difficult concepts covered in class that week, but core review sessions are effective only if students regularly attend class and actively engage in the process of thinking critically about the course content. Marshall Academic Resources are available for core courses that are traditionally challenging in the business major curriculum. For more information, please visit the Marshall Undergrad Advising and Student Affairs website http://students.marshall.usc.edu/undergrad/advising/.

Students with Disabilities
USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Student Accessibility Services (https://osas.usc.edu/). OSAS provides certification for students with disabilities and helps arrange the relevant accommodations. Any student requesting academic accommodations based on a disability is required to register with the Office of Student Accessibility Services (OSAS) each semester. A letter of verification for approved accommodations can be obtained from OSAS. Please be sure the letter is delivered to me as early in the semester as possible. OSAS is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for OSAS is (213) 740-0776. Email: ability@usc.edu.

Emergency Preparedness/Course Continuity
In case of a declared emergency if travel to campus is not feasible, the USC Emergency Information web site (http://emergency.usc.edu/) will provide safety and other information, including electronic means by which instructors will conduct class using a combination of USC’s Blackboard learning management system (blackboard.usc.edu), teleconferencing, and other technologies.

Add/Drop Process
BUAD 306 is open enrollment (R-clearance) through the Add deadline. If there is an open seat, you can add the class using Web Registration. If the class is full, you will need to continue checking Web Registration or the Schedule of Classes (classes.usc.edu) to see if a space becomes available. Students who do not attend the first two class sessions (for classes that meet twice per week) or the first class meeting (for classes that meet once per week) may be dropped from the course. The instructor is not required to notify the student that s/he is being dropped.

There are no formal wait lists for Marshall undergraduate courses, and professors cannot add students or increase the course capacity. If all sections of the course are full, you can add your name to an interest list by contacting the Office of Undergraduate Advising & Student Affairs; if new seats or sections are added, students on the interest list will be notified.

Technology Requirements
This class uses a range of technologies including in-person instruction, online synchronous and asynchronous lectures, online and in-person assessments, and so forth. You will need up-to-date hardware and software as specified below for access to the internet, using Zoom, and accessing Blackboard.
The lecture presentations, links to articles, assignments, quizzes, and rubrics are located on Blackboard. To participate in learning activities and complete assignments, you will need:

- Access to a working computer that has a current operating system with updates installed, plus speakers or headphones to hear lecture presentations;
- Reliable Internet access and a USC email account;
- A current Internet browser that is compatible with Blackboard (Google Chrome is the recommended browser for Blackboard);
- A working video camera with microphone for use on Zoom;
- Microsoft Word as your word processing program; and
- Reliable data storage for your work, such as a USB drive or Office365 OneDrive or Google Drive cloud storage.

If your computer does not have Microsoft Word, Office 365 package is available to you free of charge and allows you to install Word, Excel, PowerPoint, Outlook, OneNote, Publisher, and Access on up to 5 PCs or Macs and Office apps on other mobile devices including tablets. Office 365 also includes unlimited cloud storage on OneDrive. To download Office 365 log into your student (University) email through a web browser, choose Settings (top right corner), and select software. If you have further questions or need help with the software, please contact the USC ITS service portal.

A financial calculator is not required but may be useful. Some popular models include: Texas Instruments BA II Plus, HP BII+, HP 12C, HP 17BII+. There are good financial calculator emulators available for smartphones.

**Minimal Technical Skills Needed**

Minimal technical skills are needed in this course. Most asynchronous course work will be completed and submitted in Blackboard. Synchronous sessions are intended to be held in person, but you should be prepared to attend synchronous sessions on Zoom if necessary. Therefore, you must have consistent and reliable access to a computer and the Internet. The minimal technical skills you have include the ability to:

- Organize and save electronic files;
- Use USC email and attached files;
- Check email and Blackboard daily;
- Download and upload documents;
- Locate information with a browser; and
- Use Blackboard.
- Use Zoom with a working video camera

**Class Conduct/Netiquette**

Professionalism will be expected at all times. Because the university classroom is a place designed for the free exchange of ideas, we must show respect for one another in all circumstances. We will show respect for one another by exhibiting patience and courtesy in our exchanges. Appropriate language and restraint from verbal attacks upon those whose perspectives differ from your own is a minimum requirement. Courtesy and kindness is the norm for those who participate in my class. This applies equally in face-to-face and online settings.
Statement on Academic Conduct and Support Systems

Academic Conduct:
Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Part B, Section 11, “Behavior Violating University Standards” policy.usc.edu/scampus-part-b. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, policy.usc.edu/scientific-misconduct.

Support Systems:
Counseling and Mental Health - (213) 740-9355 – 24/7 on call
studenthealth.usc.edu/counseling
Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call
suicidepreventionlifeline.org
Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-9355 (WELL), press “0” after hours – 24/7 on call
studenthealth.usc.edu/sexual-assault
Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office of Equity and Diversity (OED) - (213) 740-5086 | Title IX – (213) 821-8298
equity.usc.edu, titleix.usc.edu
Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298
usc-advocate.symplicity.com/care_report
Avenue to report incidents of bias, hate crimes, and microaggressions to the Office of Equity and Diversity | Title IX for appropriate investigation, supportive measures, and response.

The Office of Disability Services and Programs - (213) 740-0776
dsp.usc.edu
Support and accommodations for students with disabilities. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs.

USC Campus Support and Intervention - (213) 821-4710
campussupport.usc.edu
Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity at USC - (213) 740-2101
diversity.usc.edu
Information on events, programs and training, the Provost’s Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.
USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call
dps.usc.edu, emergency.usc.edu
Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call
dps.usc.edu
Non-emergency assistance or information.