

USC Marshall

School of Business

GSBA 548 CORPORATE FINANCE

Fall 2022

Professor: Mark Griffiths

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Course Objectives

GSBA 548 is a fundamental course in finance. The course is designed to provide an introductory framework for understanding how finance professionals think, how they break down components of a financial problem, and how they make decisions as investors and corporations in the financial markets. Some of the topics that will study include: financial statements, market efficiency, time value of money, stock and bond valuations, assessment of risky investments, capital budgeting, costs of capital, financial leverage, and dividend policies. We will focus on the practical application of these topics, although we will learn enough theories to understand why the practical applications make sense.

Upon successful completion of this course, you will be able to:

- Interpret financial statements and financial ratios
- Perform discounted cash flow and present value analyses
- Value bonds and stocks
- Assess financial risk and costs of capital
- Evaluate investment projects
- Identify the effects of financial leverage and dividend policy on firm value

Time and Location

- Section 15844D: Tuesday and Thursday, 11:00-12:20 PM Pacific Time, JKP 110
 - TA is Chris Pei peichris@usc.edu
- Section 15843D: Tuesday and Thursday, 12:30-1:50 PM Pacific Time, JKP 110
 - TA is Renu Mulay renu.mulay.2023@marshall.usc.edu

Office Hours

- Office hours scheduled around exams and assignment due dates. The link will be posted with your Blackboard course pages.
- office hours are also available on Zoom upon request.

It is very important that you either e-mail me, or talk to me after class if you are having difficulty with topics that we have discussed in class or the assignments. If you cannot make these times, please e-mail me to set-up an appointment and we will work out a mutually agreeable time.

Prerequisites

You should be comfortable with basic algebra and statistics. Use of a spreadsheet package such as Excel and a financial calculator will be essential. Calculator with financial functions, such as Texas Instruments BA II Plus, BA II Plus Professional, Hewlett Packard 17bII+, and Hewlett Packard 10bII, is required. Many graphical calculators, such as the TI-83, have built-in financial functions. However, it is the students' responsibility to learn the functions of their particular calculators.

During exams, you will not be allowed to use cellphones, computers, or any devices that can communicate with others, so learning how to use a financial calculator is essential for success in the class.

Course Materials

The main readings for the course will be the lecture slides, which are provided through Blackboard. In addition, there will be a textbook from which I will assign supplemental reading materials:

- *Corporate Finance, by Ross, Westerfield, Jaffe and Jordan, Mc-Graw-Hill*

Since the materials do not change much year to year, a less-expensive option is to get an earlier edition of the textbook. The current edition is the 13th, but earlier editions will be similarly useful. Materials in the textbook that are not covered in class/practice problems will not be tested on exams. Lecture slides, assignments, and other reading materials will be available on Blackboard (<http://blackboard.usc.edu>). You are responsible for timely downloads of the materials.

In addition, you might consider some of these materials if you are interested in corporate finance beyond the scope of the course:

- Daily reading of the Wall Street Journal
- Weekly reading of the Economist
- Journal articles from Financial Analysts Journal, Journal of Applied Corporate Finance, and other research journals to be listed in class.

Attendance

Classroom Policies

- Regular attendance is critical for success in this class. Unless accommodated by USC OSAS or by the Marshall School (e.g., due to visa or travel restrictions), attendance is expected in person.
- Any student with such accommodation should submit relevant document as soon as possible. I will then provide regular access to a recording of the class and an alternative assignment to replace in-class participation.
- Students who are experiencing illness should not attend classes in person. Please inform the instructor in advance to discuss the make-up of missed class work and missed in-class participation. Students will not be penalized for not attending class in person under such circumstance.

Grading

- Class Participation 10%
- Midterm Exam 1 on 09/22 30%
- Midterm Exam 2 on 11/03 30%
- Final Exam 30%

11 or 11:30 or 10-11:50 TTh	Tuesday, December 13	8-10 a.m.
12 or 12:30 or 1 TTh	Tuesday, December 13	11 a.m.-1 p.m.

Exam dates are in line with the university schedule. You need to reconfirm the date closer to the examination (<https://classes.usc.edu/term-20213/finals/>).

Class Participation

- Classroom participation and interaction are integral parts of our class.
- I may deduct participation points for excessive absence, coming to class late, leaving class early, engaging in a simultaneous activity not related to the class, and any other behavior that is not conducive to learning or could disturb other students.
- For students exempted from attending in person, you will be required to complete a report as an alternate method of contribution to the class. The report is due on the last day of class (12/02). The content and format will be announced in class.

Exams

- There will be two midterms and a final in this course. Both exams will be closed book, but a formula sheet will be provided. You will need a financial calculator that can raise numbers to arbitrary powers.
- There will be no make-up exams, except for the most serious of (documented) reasons. By enrolling in the course, you are committing to take the tests on the scheduled dates. If you are permitted additional time for exams, please let me know at least two weeks before the exam so that we can make appropriate arrangements.
- The midterms will include the materials we have covered before the exam. The final exam is cumulative but will be weighted more towards the material from after the midterms. Exam questions can cover anything in the lecture slides, class discussion, group case assignments, or the assigned reading materials.
- Regrades must be requested within one week of the day the item was returned to you. The student must submit a written and precise explanation of why he/she thinks the grade should be modified. The entire assignment will be regraded and the final mark may go up or down.

Tentative Course Schedule: This schedule is subject to change

Students should read the assigned chapter(s) BEFORE the associated lecture date.

<p>08/23; Introduction to the Course;</p> <p>Introduction to Corporate Finance <i>What does a financial manager do? Forms of Business Organization, Acctg v. Finance Role of financial Mgr, Goal of Financial Mgmt, Capitalism, Financial System, Agency Problem, Rules of Finance</i> Read: Chapter 1, Biz Forms in the US</p>	<p>08/25:</p> <p>Introduction to Corporate Finance (cont'd) <i>Overview of the Financial system, Financial Markets, Why is finance important to you?</i> Read: Chapter 1</p>
<p>08/30:</p> <p>Financial Statements <i>Balance Sheet, Income Statement, Average versus marginal tax rates, Operating Cash Flow, Change in Net Working Capital, Standardized Financial Statements, Sources and Uses of Cash, Tax Effects</i> Read: Chapters 2</p>	<p>09/01: Financial Statements Analysis <i>What do ratios do? Ratio Analysis, DuPont method, Long Term Planning, Cost-volume-profit Analysis</i> Read: Chapters 3</p>
<p>09/06: Time Value of Money <i>Future Value and Compounding, investing for a single period, compound growth, lump sum versus payments, Present Value and discounting, present versus future value, determining the discount rate, single period present value, lump sum versus payments</i> Read: Chapter 4 SCS Ltd Case Due</p>	<p>09/08: Time Value of Money (cont'd) <i>Future Value and Compounding, investing for a single period, compound growth, lump sum versus payments, Present Value and discounting, present versus future value, determining the discount rate, single period present value, lump sum versus payments</i> Read: Chapters 4</p>
<p>09/13: Discounted Cash Flow Valuation <i>NPV estimate, Payback Rule, Internal Rate of Return, Discounted Payback, Profitability Index, Capital Budgeting</i> Read: Chapter 6</p>	<p>09/15: Discounted Cash Flow Valuation (cont'd) <i>IRR versus NPV, Mutually Exclusive Projects, Nonconventional cash flows, NPV profile, Acceptance and rejection rules for each capital budgeting criteria</i> Read: Chapter 7</p>

<p><i>09/20:</i> Review Session for Time value of Money, Discounted Cash Flow Valuation Preparation for Mid-term exam</p> <p><i>Review: tvn-qstns, Self-tests 1-8 may help with the review</i></p>	<p>09/22: Review of Time Value of Money Problems <i>Review tvn-qstns</i></p> <p><i>Midterm Exam 1: held in class.</i></p>
<p>09/27: Making Capital Investment Decisions <i>Incremental Cash Flows, Pro Forma Statements, Side Effects, Sunk Costs, Opportunity Costs, Net Working Capital, Financing Costs</i></p> <p><i>Read: Chapter 7</i></p>	<p>09/29: Interest Rates and Bond Valuation <i>Bonds and valuation of bonds, Bond Features, Interest Rate Risk, Default and Credit Risk, Re-investment rate risk, Bond Indenture, Debt or Equity? Long Term Debt, Government Bonds, Corporate Bonds, Mortgage Bonds, Floating Rate bonds, Zero Coupon Bonds</i></p> <p><i>Read: Chapter 8</i></p>
<p>10/04: Interest Rates and Bond Valuation <i>Bond Ratings, Moody's and Standard and Poors, Investment Grade versus High Yield (Junk) Debt, Real versus nominal rates, Fisher Effect, Term Structure of Interest Rates – Yield Curve</i></p> <p><i>Read: Chapter 8</i></p>	<p>10/06: Stock Valuation <i>Zero Growth, Constant Growth Model, Shareholder Rights, Common Stock versus Preferred Stock, Cumulative versus non-cumulative, Dealers and Brokers, NYSE, NASDAQ</i></p> <p><i>Read: Chapter 9</i></p>
<p>10/11: Stock Valuation (cont'd) <i>Zero Growth, Constant Growth Model, Shareholder Rights, Common Stock versus Preferred Stock, Cumulative versus non-cumulative, Dealers and Brokers, NYSE, NASDAQ</i></p> <p><i>Read: Chapter 9</i></p>	<p>10/13: Capital Market History <i>Returns thru time for different asset classes, Historical record, Risk premiums, variability of returns, average versus geometric, capital market efficiency</i></p> <p><i>Read: Chapter 10</i></p>
<p>10/18: Capital Market History (cont'd) <i>Returns thru time for different asset classes, Historical record, Risk premiums, variability of returns, average versus geometric, capital market efficiency</i></p>	<p>10/20: <i>No Class – Fall Break</i></p>

<p><i>Read: Chapter 10</i></p>	
<p>10/25: Return, Risk, and Security Market Line <i>Expected Returns and variances, portfolio weights and expected returns, unexpected returns, Systematic and unsystematic risk, diversification</i></p> <p><i>Read: Chapter 11</i></p>	<p>10/27: Cost of Capital <i>Cost of Capital, Cost of Equity, Cost of Debt, Cost of Preferred Stock</i></p> <p><i>Read: Chapter 11</i></p>
<p>11/01:</p> <p><i>Review Session for Time value of Money, Discounted Cash Flow Valuation Preparation for Mid-term exam</i></p> <p><i>Review: tvm-qsns, Self-tests 1-8 may help with the review</i></p>	<p>11/03:</p> <p><i>Midterm Exam 2: held in class.</i></p>
<p>11/08: Cost of Capital <i>Weighted Average Cost of Capital, Divisional Cost of Capital, Project Cost of Capital</i></p> <p><i>Read: Chapter 11</i></p>	<p>11/10: Financial Leverage and Capital Structure Policy <i>Capital Structure Question – Debt or Equity Financing? Effect of Financial leverage, Cost of equity or debt? M&M proposition I&II</i></p> <p><i>Read: Chapter 14</i></p>
<p>11/15: Financial Leverage and Capital Structure Policy <i>Capital Structure Question – Debt or Equity Financing? Effect of Financial leverage, Cost of equity or debt? M&M proposition I&II</i></p> <p><i>Read: Chapter 16</i></p>	<p>11/17: Financial Leverage and Capital Structure Policy <i>M&M Proposition I and II with and without corporate taxes, Bankruptcy Costs, Optimal Capital Structure, Bankruptcy liquidation versus reorganization</i></p> <p><i>Read: Chapter 17</i></p>
<p>11/22: Leasing <i>M&M Proposition I and II with and Types of leases, accounting vs leasing, lease vs buy, reasons</i></p>	<p>11/24: <i>No Class - Thanksgiving</i></p>

<p><i>for leasing and problems with leasing</i></p> <p><i>Read: Chapter 21</i></p>	
<p>11/29: Dividends and Payout Policy</p> <p><i>Cash dividends, stock dividends, low payouts versus high payouts, tax and legal benefits, dividend policy, stock repurchase plans, stock splits, reverse splits</i></p> <p><i>Read: Chapter 19</i></p>	<p>12/01:</p> <p><i>Final Exam Review</i></p>

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 [Research and Scholarship Misconduct](#).

Students and Disability Accommodations:

USC welcomes students with disabilities into all of the University’s educational programs. The Office of Student Accessibility Services (OSAS) is responsible for the determination of appropriate accommodations for students who encounter disability-related barriers. Once a student has completed the OSAS process (registration, initial appointment, and submitted documentation) and accommodations are determined to be reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. The LOA must be given to each course instructor by the student and followed up with a discussion. This should be done as early in the semester as possible as accommodations are not retroactive. More information can be found at osas.usc.edu. You may contact OSAS at (213) 740-0776 or via email at osasfrontdesk@usc.edu.

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 for Equity, Equal Opportunity, and Title IX (EEO-TIX) - (213) 740-5086
eeotix.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 for Equity, Equal Opportunity, and Title for appropriate investigation, supportive measures, and response.

The Office of Student Accessibility Services (OSAS) - (213) 740-0776
osas.usc.edu

OSAS ensures equal access for students with disabilities through providing academic accommodations and auxiliary aids in accordance with federal laws and university policy.

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, Equity and Inclusion - (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.

Office of the Ombuds - (213) 821-9556 (UPC) / (323-442-0382 (HSC)
ombuds.usc.edu

A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

Occupational Therapy Faculty Practice - (323) 442-3340 or otfp@med.usc.edu
chan.usc.edu/otfp

Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.