

USC Marshall

School of Business

BUAD 306– Business Finance-Fall 2023- 4.0 units

Professor: Kristy Jansen (first part) Ricardo De la O (second part)
Office: HOH711 HOH803
Office Hours: Mon 3.30-5.30pm, Mon 4:00-6:00pm,
Wed 10.00am-12.00pm Wed 11:00am-1:00pm
in office (Zoom on request) in office (Zoom on request)
Email: kjansen@marshall.usc.edu rdelao@marshall.usc.edu

Course Administrator: Marc Choueiti
Email: buad306@marshall.usc.edu

Teaching Assistants: Irene Gehrig, Leo Lee, Celine Lin, Raghav Ruia,
Amber Yan, Ruisha Yang
TA Office Hours: TBD

Location and Meeting Times

Section	Days	Times	Location
14783R	Tue, Thu	8:00am – 9:50am	JFFLL105
14785R	Tue, Thu	2:00pm – 3:50pm	JFFLL125
14789R	Tue, Thu	4:00pm – 5:50pm	HOH1
14790R	Tue, Thu	6:00pm – 7:50pm	HOH1

Course Description

Effective financial decision-making is essential to the success of any business. Financiers, CFOs, treasurers, controllers, managers, or anyone involved in financial decision-making, must understand the concepts of finance and financial management in relation to economic developments and in a world of market uncertainties.

BUAD 306 provides an introduction to the modern theory and practice of corporate finance. The objective of the course is to gain an understanding of financial decisions that managers make in evaluating investment opportunities and how to finance those opportunities. In addition, we will explore how these decisions affect the value of the firm and how the firm interacts with the capital markets.

During the semester, you will learn how financiers think, what the role of the financial decision-maker is, and how financial management concerns the management of modern enterprise. More specifically, you will learn how financiers break down components of financial problems, and how they then arrive at investment decisions as individual or corporate investors.

By the end of the semester, you should be familiar with financial vocabulary, understand aspects of financial theory, develop skills in financial computation, and appreciate the underlying financial mindset as well as incentives involved when solving problems of finance.

Learning Objectives

Through lecture, worked samples, and by learning to apply appropriate mathematical and financial formulas and functions, you will be able to:

1. Explain the meaning of time value of money and how to calculate and evaluate the trade-off between dollars today and dollars sometime in the future.
2. Perform discounted cash flow (DCF) and net present value (NPV) analysis in making financial decisions.
3. Value capital assets using the Capital Asset Pricing Model (CAPM), highlighting the central role of portfolio diversification and the beta coefficient.
4. Calculate the different criteria used to evaluate proposed investments (e.g., NPV and IRR).
5. Determine a company's financial risk and its cost of capital (WACC).
6. Recognize and explain the elements of optimal capital structure, the effects of financial leverage, bankruptcy, and the role of taxes.

These course level objectives align with selected Marshall Program Learning Goals.

Required Materials

The required text is *Fundamentals of Corporate Finance*, 13th Edition by Ross, Westerfield and Jordan, McGraw-Hill Education, New York, NY, 2022. Use of an alternative edition is allowed, but not encouraged since sets of problems, examples, and explanations may be different across the editions.

Recommended preparation

Foundational courses in microeconomics, financial accounting, and business statistics. Duplicates Credit in BUAD 308.

Course Notes

Additional course materials are accessed via Blackboard (blackboard.usc.edu).

Grading Policies

The grade is a weighted total of four **non-cumulative** exams, plus homework assignments:

Assignments	% of Grade
Homework	20%
Exam 1	20%
Exam 2	20%
Exam 3	20%
Exam 4	20%
TOTAL:	100%

Your final letter grade will not be based on a mandated target, but on your relative performance. Historically, the median grade for this class is about a B+.

Grading Details and Assignments

1. **Exams.** All exams are closed book. We will provide a formula sheet for each exam. You may also use excel to perform calculations using a single completely empty excel spreadsheet. Use of any other resources will be considered academic integrity violation. All exams will use the Scantron multiple choice format. Students must provide their own pens or pencils. Students *must* take the exam in the lecture section in which they are registered.

The first three exams are 75 minutes-timed exams held during regular class meeting times and in the regular class location. Therefore, there are no conflicts of exam times with any other course at USC. The fourth and final exam will be held during USC final exams week, scheduled by USC and listed in the syllabus below.

Exam Absence Policy: Students are required to be present for all four exams. If you are not able to take the exams on the dates and times specified in the detailed 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 a serious medical problem for missing a midterm exam, your grade will be based on the score of the remaining three exams. Your total score will then be determined by your relative performance with respect to those who have taken the same three exams. However, if you miss more than one exam, we will be unable to assign a complete grade to you. Additionally, based on the USC policy no student can omit the Final or take it in advance.

2. **Assignments.** There will be four assignments posted on Blackboard during the course. For each assignment, we randomly grade some of them. The final grade for your assignment is the average grade across all homeworks. Answers to the homeworks will be posted online after grading for students to evaluate their performance.
3. **Participation.** Attendance and active class participation is mandatory. While the attendance and participation will not be tracked or graded, both are necessary for successful understanding and completion of the course.

Technology Policy

Personal computers and wireless Internet are a key part of today's technological culture, but they also can distract you from the class discussion and dampen participation. You may bring your laptops/iPads etc. to class for note-taking, but please refrain from browsing the internet, updating your Facebook profile, playing games, instant messaging, shopping, etc. Although you may think you are being discreet, 90% of the time students engaging in such behavior give themselves away (through inappropriate facial expressions, lack of eye contact, out of sync typing, etc.). Use of computers in the classroom is a privilege. If you abuse this privilege, laptops may be banned from the classroom.

COURSE CALENDAR

*Sets of **mandatory** end-of-chapter problems will be posted on Blackboard.*

Part 1, taught by Prof. Kristy Jansen

Dates	Week	Topics	Chapters
Aug 21 - Aug 25	1	<p><i>Tuesday - Course Intro; introduction to corporate finance</i> What does a financial manager do? Forms of business organization, goal of financial management, agency problem, principal-agent problem, incentives</p> <p><i>Thursday - 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</p>	1 5
Aug 28 - Sep 1	2	<p><i>Tuesday - Discounted Cash Flow Valuation</i> Future and present values of multiple cash flows, valuation of annuities, perpetual bonds, future value of annuities, annuities due</p> <p><i>Thursday - Discounted Cash Flow Valuation</i> Effective annual rates, calculating and comparing rates, EAR versus APR, continuous compounding, loan types, amortization, pure discount loans, interest only loans, amortized loans</p>	6.1-6.2 6.3-6.5
Sep 4 - Sep 8	3	<p><i>Tuesday - 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?</p> <p><i>Thursday - Review Session</i></p>	7.1-7.2
Sep 11 - Sep 15	4	<p><i>Tuesday - Test 1 (for weeks 1-4 only)</i></p> <p><i>Thursday - Interest Rates and Bond Valuation</i> Bond ratings, Moody's and Standard and Poor's, investment grade versus high yield (junk) debt, government versus corporate bonds, real versus nominal rates, Fisher effect, term structure of interest rates – yield curve</p>	7.3-7.7
Sep 18 - Sep 22	5	<i>Tuesday - Stock Valuation</i>	8

		<p>Zero growth, constant growth model, shareholder rights, common stock versus preferred stock, cumulative versus non-cumulative, dealers and brokers, valuation using multiples</p> <p><i>Thursday - Net Present Value and Other Investment Criteria</i> NPV estimate, payback rule, internal rate of return, discounted payback, profitability index, capital budgeting</p>	9
Sep 25 – Sep 29	6	<p><i>Tuesday - Net Present Value and Other Investment Criteria</i> IRR versus NPV, mutually exclusive projects, Nonconventional cash flows, NPV profile, acceptance and rejection rules for each capital budgeting criteria</p> <p><i>Thursday - Using Financial Statements to Evaluate Projects</i> Balance sheet, income statement, operating cash flow, incremental cash flows, standalone principle</p>	9 2.1-2.2,2.4, 10.1-10.2
Oct 2 – Oct 6	7	<p><i>Tuesday - Making Capital Investment Decisions</i> Depreciation, pro forma statements, side effects, sunk costs, opportunity costs, net working capital, financing costs</p> <p><i>Thursday - Review Session</i></p>	10.3-10.4, 10.6-10.7
Oct 9 – Oct 13	8	<p><i>Tuesday - Test 2 (for weeks 5-8 only)</i></p> <p><i>Thursday - NO CLASS- Fall Recess</i></p>	
Part 2, taught by Prof. Ricardo De la O			
Dates	Week	Topics	Chapters
Oct 17 – Oct 21	9	<p><i>Tuesday – Capital Markets History; Mean-Variance Framework</i> Returns through time for different asset classes, historical record, risk premiums, variability of returns, average versus geometric, concept of capital market efficiency</p>	12 13

		<p><i>Thursday – Expected Returns, Variances, Diversification, Capital Asset Pricing Model (CAPM), Part 1</i></p> <p>Expected returns and variances, portfolio weights and expected returns, unexpected returns, systematic and unsystematic risk, diversification, asset beta and portfolio beta</p>	
Oct 24 – Oct 28	10	<p><i>Tuesday – Capital Asset Pricing Model (CAPM), Part 2</i></p> <p>Systematic risk and beta, portfolio beta, security market line, reward to risk ratio, beta and the risk premium, Capital Asset Pricing Model (CAPM), cost of capital</p> <p><i>Thursday – Cost of Capital, Part 1</i></p> <p>Cost of capital, cost of equity, cost of debt, cost of preferred stock, weighted average cost of capital</p>	13 14.1-14.5
Oct 31 – Nov 4	11	<p><i>Tuesday – Cost of Capital, Part 2</i></p> <p>Weighted average cost of capital, divisional cost of capital, project cost of capital, <i>case study for Nike Inc</i></p> <p><i>Thursday – Raising Capital: Process and Cost of Issuing Securities; Review for Weeks 9 to 11</i></p>	14.1-14.5 15.1-15.7 15.8-15.11
Nov 7 – Nov 11	12	<p><i>Tuesday – Test 3 (for weeks 9-11 only)</i></p> <p><i>Thursday – Firm Value, Part 1</i></p> <p>Finding firm and equity value using discounted cash flow valuation</p>	 14.6-14.7
Nov 14 – Nov 18	13	<p><i>Tuesday – Firm Value, Part 2</i></p> <p>Finding firm and equity value using discounted cash flow valuation, finding firm and equity value using multiples (comparables), case study</p> <p><i>Thursday – Capital Structure, Part 1</i></p> <p>Financial leverage and capital structure policy, capital structure question – debt or equity financing, effect of financial leverage on cost of equity, cost of debt, and cost of capital, M&M proposition I&II with and without corporate taxes</p>	14.6-14.7; 8.1 16
Nov 21 – Nov 25	14	<p><i>Tuesday – Capital Structure, Part 2</i></p>	16

		M&M proposition I&II with and without corporate taxes, bankruptcy liquidation versus reorganization <i>Thursday – No class, Happy Thanksgiving!</i>	
Nov 28 – Dec 2	15	<i>Tuesday – Dividend Policy</i> Cash dividends, stock dividends, low versus high payouts <i>Thursday – Review Session</i> Final preparation: Solving practice exercises for Weeks 12-15	17

FINAL exam (Non-cumulative, content includes weeks 12-15 only):

14783R: 8am class – Dec 12, Tuesday 4:30pm JFFLL105

14785R: 2pm class – Dec 7, Thursday 2:00pm JFFLL125

14789R: 4pm class – Dec 7, Thursday 4:30pm HOH1

14790R: 6pm class – Dec 7, Thursday 7:00pm HOH1

Please note: The date/time of the Final Exam is determined by the University. The date and time of the final for this class were determined from the USC *Schedule of Classes* at www.usc.edu/soc. You can view the original posting by selecting the corresponding semester to view and click on the “Final Examinations Schedule” link on the left side of the screen. **Exam rooms will be known after they are scheduled by the University.**

ADDITIONAL INFORMATION

Add Process

Most Marshall classes are 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. 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.

Open Expression and Respect for All

An important goal of the educational experience at USC Marshall is to be exposed to and discuss diverse, thought-provoking, and sometimes controversial ideas that challenge one’s beliefs. In this course we will support the values articulated in the USC Marshall “[Open Expression Statement](#).”

Academic Integrity

The University of Southern California is foremost a learning community committed to fostering successful scholars and researchers dedicated to the pursuit of knowledge and the transmission of ideas. Academic misconduct is in contrast to the university’s mission to educate students through

a broad array of first-rank academic, professional, and extracurricular programs and includes any act of dishonesty in the submission of academic work (either in draft or final form).

This course will follow the expectations for academic integrity as stated in the USC Student Handbook. All students are expected to submit assignments that are original work and prepared specifically for the course/section in this academic term. You may not submit work written by others or “recycle” work prepared for other courses without obtaining written permission from the instructor(s). Students suspected of engaging in academic misconduct will be reported to the Office of Academic Integrity.

Other violations of academic misconduct include, but are not limited to, cheating, plagiarism, fabrication (e.g., falsifying data), knowingly assisting others in acts of academic dishonesty, and any act that gains or is intended to gain an unfair academic advantage.

The impact of academic dishonesty is far-reaching and is considered a serious offense against the university and could result in outcomes such as failure on the assignment, failure in the course, suspension, or even expulsion from the university.

For more information about academic integrity see the [Student Handbook](#) or the [Office of Academic Integrity](#)'s website, and university policies on [Research and Scholarship Misconduct](#).

Use of AI Generators in this course:

In this course, we encourage you to use artificial intelligence (AI)-powered programs to help you with assignments that indicate the permitted use of AI. You should also be aware that AI text generation tools may present incorrect information, biased responses, and incomplete analyses; thus they are not yet prepared to produce text that meets the standards of this course. To adhere to our university values, you must cite any AI-generated material (e.g., text, images, etc.) included or referenced in your work and provide the prompts used to generate the content. Using an AI tool to generate content without proper attribution will be treated as plagiarism and reported to the Office of Academic Integrity. Please review the instructions in each assignment for more details on how and when to use AI Generators for your submissions.

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
eotix.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.