

USC Marshall School of Business

BUAD 306 MW 4:00-5:50p (14790R) Fall 2024

Professor: Ty Callahan
Office: HOH 213
Office Hour: Wednesdays 10:00-11:30a
Email: twcallah@marshall.usc.edu
Zoom Link: <https://usc.zoom.us/my/tycallahan> (may sometimes be used for office hours, and will be used for online class sessions in case of emergency or campus closure.)

Course Administrator

Marc Choueiti, buad306@marshall.usc.edu

TAs: Please see Brightspace

TA Office Hours: Please see Brightspace announcements.

Course Description

Financial analysis is essential to every business enterprise. Financiers, CFOs, treasurers, controllers, managers, or anyone involved in financial decisions, must understand finance and financial management.

BUAD 306 is an introduction to the modern theory and practice of corporate finance. We will learn how to analyze corporate investment opportunities and options to finance investment opportunities. We will learn how financial decisions affect firm value and how firms interact with financial markets.

We will discuss how financiers think and the role of financial decision-makers. You will learn how to break down components of financial decisions to arrive at corporate investment decisions.

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, worked samples, and application of financial formulas and functions, you will be able to:

1. Describe types and features of common financial assets.
2. Explain the concept and apply the formulas related to the time value of money.
3. Apply DCF valuation and NPV analysis in a range of contexts.
4. Interpret, apply, and use accounting statements in financial analysis.
5. Explain and apply capital budgeting criteria (e.g., IRR, NPV).
6. Explain and apply a modern risk-return framework (e.g., CAPM).
7. Calculate costs of capital (e.g., WACC).
8. Recognize and explain the elements of optimal capital structure, the effects of financial leverage, bankruptcy, and the impact of corporate taxes.

Required Materials

The required textbook is *Fundamentals of Corporate Finance*, 13th Edition by Ross, Westerfield and Jordan, McGraw-Hill Education, New York, NY, 2022.

Recommended Preparation:

Foundational courses in microeconomics, financial accounting, and business statistics.

Course Notes:

Additional course materials are accessed via Brightspace (Brightspace.usc.edu).

Grading Summary

The final grade has five components:

Assessment	% of Grade
Assignments	20%
Exam 1	20%
Exam 2	20%
Exam 3	20%
Exam 4	20%
Total:	100%

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. Historically, the median grade for this class is around a B+.

Grading Details and Assignments

1. **Exams.** Exams are closed book with a formula sheet provided. Additional details regarding the exam format, testing protocol and allowed materials will be provided.

Exam Absence Policy: Students are required to take all four exams. If you are not able to take the exams 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 one of the first three exams, your grade will be based on the scores of the remaining exams. If you miss two of the first three exams you will fail the course. The last exam, administered during finals, is required. If you miss the last exam you will be given a score of zero unless a mark of INCOMPLETE is warranted, in which case you will take the exam at a later date to remove the INCOMPLETE.

2. **Assignments.** There will be approximately 8 assignments posted to Brightspace during the course. Assignments are assessed on a C/NC basis on the due date. Answers to the assignments will be posted online after the due date for students to evaluate their performance.

Technology Policy

You may use laptops and iPads for note-taking, but please refrain from browsing the internet, messaging, shopping, using social media, playing games, watching video/sports, etc. You may think you can do so discreetly, but 90% of the time you will give yourself away via lack of eye contact, out of sync typing, inappropriate facial expressions, etc. Using computers in the classroom is a privilege that will be taken away if abused.

COURSE CALENDAR (also available on Brightspace)

Date	Topics	Chapter(s)
Week 1 Aug 26, 28	Welcome, course introduction Introduction to corporate finance – <i>What is corporate finance? Forms of business organization. Goal of Financial Management. Agency problem and corporate stakeholders. Corporations and financial markets.</i> Introduction to Valuation: time value of money – <i>Future value and compounding. Present value and discounting.</i>	1, 5
Week 2 Sep 04	No class on Monday – Labor Day Discounted cash flow valuation 1 – <i>Future and present values of multiple cash flows. Valuing level cash flows: annuities and perpetuities</i>	6.1-6.2
Week 3 Sep 09, 11	Discounted cash flow valuation 2 – <i>Comparing rates: the effect of compounding. Loan types and loan amortization.</i> Interest rates and bond valuation 1 – <i>Bonds and bond valuation. More about bond features.</i>	6.3-6.5, 7.1-7.2
Week 4 Sep 16, 18	Interest rates and bond valuation 2 – <i>Bond ratings. Different types of bonds. Bond markets. Inflation and interest rates. Determinants of bond yields.</i> Catch up and review	7.3-7.8
Week 5 Sep 23, 25	Exam 1 on Monday, Sep 23. Stock valuation – <i>Common stock valuation. Features of common and preferred shares. Stock markets.</i>	8
Week 6 Sep 30, Oct 02	Net present value and other investment criteria – <i>Net present value. The payback rule. Internal rate of return. Profitability index. The practice of capital budgeting.</i> Financial statements, taxes, and cash flow – <i>The balance sheet. The income statement. Taxes. Cash flow.</i>	9.1-9.2, 9.5-9.8, 2
Week 7 Oct 07, 09	Making capital investment decisions – <i>Project cash flows: a first look. Incremental cash flows. Pro forma financial statements and project cash flows. Accrual effects: net working capital and depreciation. Special cases.</i>	10 (except 10.5)
Week 8 Oct 14, 16	Catch up and review Exam 2 on Wednesday, Oct 16.	
Week 9 Oct 21, 23	Some lessons from capital market history – <i>Returns. The historical record. Average returns. The variability of returns. Capital market efficiency.</i> Return, risk, and the security market line 1 – <i>Expected returns and variances. Portfolios. Announcements, surprises, and expected returns. Systematic and unsystematic risk. Diversification and portfolio risk.</i>	12, 13.1-13.5

Week 10 Oct 28, 30	Return, risk, and the security market line 2 – <i>Systematic risk and beta. The security market line.</i> Cost of capital 1 – <i>Cost of capital preliminaries. The cost of equity. The costs of debt and preferred. The weighted average cost of capital.</i>	13.6-13.9, 14.1-14.4
Week 11 Nov 04, 06	Cost of capital 2 – <i>Divisional and project costs of capital. Company valuation and the WACC. Flootation costs and average cost of capital.</i> Catch up and review	14.5-14.8
Week 12 Nov 13	No class on Monday – Veterans Day Exam 3 on Wednesday, Nov 13	
Week 13 Nov 18, 20	Raising Capital – <i>Early-stage financing and venture capital. Selling securities to the public. Underwriters. IPOs and underpricing. New equity sales and value of the firm. The costs of issuing securities. Rights. Dilution. Issuing long-term debt.</i> Financial leverage and capital structure policy 1 – <i>The capital structure question. The effect of financial leverage. Capital structure and the cost of equity capital. M&M propositions I and II with corporate taxes.</i>	15, 16.1-16.4
Week 14 Nov 25	Financial leverage and capital structure policy 2 – <i>Bankruptcy costs. Optimal capital structure. Nonmarketed claims. The pecking-order theory. Observed capital structures. The bankruptcy process.</i> No class on Wednesday – Thanksgiving holiday	16.5-16.11
Week 15 Dec 02, 04	Dividends and payout policy – <i>Cash dividends and dividend payment. Dividend irrelevance conditions. Factors favoring a low dividend payout. Factors favoring a high dividend payout. Stock repurchases as an alternative to cash dividends. Cash dividends stylized facts. Stock dividends and stock splits.</i> Catch up and review	17
Finals Week	Exam 4	• day/time as designated by official university schedule: https://classes.usc.edu/term-20243/final-examinations-schedule/ Wednesday, Dec 11, 4:30-6:30pm

Please note: The date of the Final Exam is determined by the University. For the date of the final for this class, consult the USC *Schedule of Classes* at 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 the Brightspace. The TAs will hold regular office hours and can answer questions on the material during office hours or via email.

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 Brightspace learning management system (Brightspace.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* to see if a space becomes available. Students who do not attend the first two class sessions (for classes that meet twice 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.

Collaboration Policy

There are two types of assignments in this class: individual work without collaboration allowed, and individual work with collaboration allowed.

- Exams are individual work without collaboration allowed. All work must be individual and independent. Each student individually completes and submits their own work. Students may not seek help from nor provide help to one another, nor may students seek help from anyone outside the class, including but not limited to former students of this course, friends and family, tutors, and online forums. Any help, given or received, on a quiz or exam is an academic integrity violation. (As is any other form of cheating like accessing non-permitted resources, etc.)
- Assignments and homework are individual work with collaboration allowed. Students are permitted and encouraged to discuss with others their ideas for completing these assignments, but every student must individually complete and turn in their own work. For example, a classmate can help you understand and solve practice problems, but cannot complete and submit practice problems on your behalf. Students can watch and discuss asynchronous videos in parallel, but each student needs to watch the videos on their own browser to receive credit. Students may work together and help one another with Excel exercises, but each student should enter formulas and data into their own spreadsheet and submit their own spreadsheet – copying and pasting from one student's spreadsheet to another is not allowed.

Students may not post anything related to any of the assignments in this class online.

Retention of Graded Coursework

Exams and other graded work which affected the course grade will be retained for one year after the end of the course if the graded work has not been returned to you.

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 Brightspace.

The lecture presentations, links to articles and assignments, etc. are located on Brightspace. 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 Brightspace (Google Chrome is the recommended browser for Brightspace);
- A working video camera with microphone for use on Zoom;
- MS Office 365 for Word and Excel; 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 MS Office 365, it 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 Brightspace. 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 Brightspace daily;
- Download and upload documents;
- Locate information with a browser; and
- Use Brightspace.
- Use Zoom with a working video camera

Use of AI

In this course I encourage you to use artificial intelligence (AI)-powered programs to help you with assignments that indicate the permitted use of AI. I would love to hear from students who develop and share efficient and effective uses of AI for learning and mastering BUAD 306 material. Proceed with caution when using AI tools and do not assume the information provided is accurate or trustworthy. If it gives you a number or fact, assume it is incorrect unless you either know the correct answer or can verify its accuracy with another source. You will be responsible for any errors or omissions provided by the tool. It works best for topics you understand. AI is a tool, but one that you need to acknowledge using. Please include a statement at the end of any assignment that uses AI explaining how you used AI and indicate/specify the prompts you used to obtain the results and what prompts you used to get the results. Failure to do so is a violation of academic integrity policies.

Use of Recordings

Pursuant to the [USC Student Handbook](#), page 57, students may not record a university class without the express permission of the instructor and announcement to the class. In addition, students may not distribute or use notes or recordings based on USC classes or lectures without the express permission of the instructor for purposes other than personal or class-related group study by individuals registered for the class. This restriction on unauthorized use applies to all information that is distributed or displayed for use in relationship to the class. Violation of this policy may subject an individual or entity to university discipline and/or legal proceedings.

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.

Academic dishonesty has a far-reaching impact and is considered a serious offense against the university. Violations will result in a grade penalty, such as a failing grade on the assignment or in the course, and disciplinary action from the university itself, such as suspension or even expulsion.

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](#).

Please ask your instructor if you are unsure what constitutes unauthorized assistance on an exam or assignment or what information requires citation and/or attribution.

Statement on University Academic and Support Systems

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.

Student Financial Aid and Satisfactory Academic Progress:

To be eligible for certain kinds of financial aid, students are required to maintain Satisfactory Academic Progress (SAP) toward their degree objectives. Visit the [Financial Aid Office webpage](#) for [undergraduate-](#) and [graduate-level](#) SAP eligibility requirements and the appeals process.

Support Systems:

[Counseling and Mental Health](#) - (213) 740-9355 – 24/7 on call

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

[988 Suicide and Crisis Lifeline](#) - 988 for both calls and text messages – 24/7 on call

The 988 Suicide and Crisis Lifeline (formerly known as the National Suicide Prevention Lifeline) provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week, across the United States. The Lifeline consists of a national network of over 200 local crisis centers, combining custom local care and resources with national standards and best practices. The new, shorter phone number makes it easier for people to remember and access mental health crisis services (though the previous 1 (800) 273-8255 number will continue to function indefinitely) and represents a continued commitment to those in crisis.

[Relationship and Sexual Violence Prevention Services \(RSVP\)](#) - (213) 740-9355(WELL) – 24/7 on call

Free and confidential therapy services, workshops, and training for situations related to gender- and power-based harm (including sexual assault, intimate partner violence, and stalking).

[Office for Equity, Equal Opportunity, and Title IX \(EEO-TIX\)](#) - (213) 740-5086

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) 740-2500

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 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) 740-0411

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

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

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) 442-1200 – 24/7 on call

Non-emergency assistance or information.

[Office of the Ombuds](#) - (213) 821-9556 (UPC) / (323-442-0382 (HSC)

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) 442-2850 or otfp@med.usc.edu

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

Revised June 2024

Appendix:

Undergraduate Program Learning Goals and Objectives (last update 12/21/17)

Learning goal 1: Our graduates will demonstrate critical thinking skills so as to become future-oriented problem solvers, innovators and decision makers in diverse and rapidly changing business environments.

- Students will demonstrate the ability to anticipate, identify and solve business problems. They will be able to identify and assess central problems, identify and evaluate potential solutions, and translate a chosen solution to an implementation plan that considers future contingencies
- Students will demonstrate the ability to be accurate, clear, expansive (thorough, detailed) and fair-minded in their thinking
- Students will critically analyze concepts, theories and processes by stating them in their own words, understanding key components, identifying assumptions, indicating how they are similar to and different from others and translating them to the real world
- Students will be effective at gathering, storing, and using qualitative and quantitative data and at using analytical tools and frameworks to understand and solve business problems
- Students will understand the concepts of critical thinking, entrepreneurial thinking and creative thinking as drivers of innovative ideas

Learning Goal 2: Our graduates will develop people and leadership skills to promote their effectiveness as business managers and leaders in the 21st century's evolving work and organizational structures.

- Students will recognize, understand and analyze the roles, responsibilities and behaviors of effective managers and leaders in diverse business contexts e.g., functionally diverse, culturally diverse, geographically diverse, etc.
- Students will understand factors that contribute to effective teamwork including how to elicit, manage and leverage diverse perspectives and competencies.
- Students will recognize, understand, and analyze the motivations and behaviors of stakeholders inside and outside organizations (e.g., teams, departments, consumers, investors, auditors)

Learning Goal 3: Our graduates will be effective communicators to facilitate information flow in organizational, social, and intercultural contexts.

- Students will identify and assess diverse personal and organizational communication goals and audience information needs
- Students will demonstrate an ability to gather and disseminate information and communicate it clearly, logically, and persuasively in professional contexts
- Students will understand individual and group communications patterns and dynamics in organizations and other professional contexts

Learning goal 4: Our graduates will demonstrate ethical reasoning skills, understand social, civic, and professional responsibilities and aspire to add value to society.

- Students will recognize ethical challenges in business situations and assess appropriate courses of action
- Students will understand professional codes of conduct

Learning goal 5: Our graduates will develop a global business perspective. They will understand how local, regional, and international markets, and economic, social and cultural issues impact business decisions so as to anticipate new opportunities in any marketplace.

- Students will understand that stakeholders, stakeholder interests, business environments (legal, regulatory, competitor) and business practices vary across regions of the world
- Students will understand how local, regional and global markets interact and are impacted by economic, social and cultural factors.

Learning goal 6: Our graduates will understand types of markets and key business areas and their interaction to effectively manage different types of enterprises.

- Students will demonstrate foundational knowledge of core business disciplines, including business analytics and business economics
- Students will understand the interrelationships between functional areas of business so as to develop a general perspective on business management
- Students will apply theories, models, and frameworks to analyze relevant markets (e.g. product, capital, commodity, factor and labor markets)
- Students will be able to use technologies (e.g., spreadsheets, databases, software) relevant to contemporary business practices

**Appendix:
Participation
Behavioral Anchor Rating Scale**

Excellent Performance

- Initiates information relative to topics discussed
- Accurately exhibits knowledge of assignment content
- Clarifies points that others may not understand
- Shares personal experiences or opinions related to topic
- Offers relevant / succinct input to class
- Actively participates in simulations and class exercises
- Demonstrates ability to apply, analyze, evaluate & synthesize course material.
- Demonstrates willingness to attempt to answer unpopular questions
- Builds on other students' contributions

Good Performance

- Regularly participates in discussions
- Shares relevant information
- Gives feedback to classroom discussions
- Consistently demonstrates knowledge of reading assignments
- Demonstrates ability to analyze / apply course material
- Demonstrates willingness to attempt to answer questions

Fair / Average Performance

- Participates in group discussions when asked
- Demonstrates knowledge of course material
- Offers clear, concise, "good" information on class assignments
- Offers input, but tends to reiterate the intuitive
- Attends class regularly

Poor Performance

- Occasional input, often irrelevant, unrelated to topic
- Reluctant to share information
- Not following the flow of ideas
- Personal applications only
- Drains energy from the class

Unacceptable Performance

- Fails to participate even when specifically asked
- Gives no input to discussions
- Does not demonstrate knowledge of the readings
- Shows up to class: does nothing
- Distracts group / class
- Irrelevant discussion