

Syllabus

EWMBA 203, Core Finance – Spring 2020



Instructor: Professor Raghavendra Rau
Email: [REDACTED]
Office hours: Mondays and Tuesdays, 5:00pm-6:00pm (via Zoom, after prior email appointment)

Web pages:

- 1) bCourses class page: <https://bcourses.berkeley.edu>
- 2) All cases are on study.net: www.study.net (this is linked in bCourses)
- 3) The textbook has a [web page](#) which we will use for quizzes (details below).


GSI: Troup Howard [REDACTED]
GSI sessions: Will be held online via Zoom. GSI sessions will be recorded and posted on bCourses, so you can access at your leisure. The GSI will review the major concepts from the previous lecture and/or work through sample problems. To facilitate joining synchronously (for anyone who wants to), sessions will alternate between Wednesdays and Thursdays to minimize conflicts with your other classes. Schedule as follows:
Wednesday, 6pm - 7pm: 3/18, 4/1, 4/15, 4/29,
Thursday, 6pm - 7pm: 3/26, 4/9, 4/23, 5/7

GSI Office Hours: To be held immediately following sessions, 7pm - 8pm. If you know you will attend office hours, please email the GSI in advance. Additional office hours may be possible with prior email arrangement; we will calibrate based on demand.

Overview: This is an introductory MBA course in finance. We will start by covering present value and future value (the basics along with real world issues and applications). We then apply these concepts to assess projects. We will discuss what the right decision rule is and how to calculate the appropriate cash flows. Next we turn to financial markets with the objective of providing an introduction to bonds, stocks, diversification and optimal portfolio choice. With an understanding of investments, we return to corporate finance. We assess the appropriate measure of project risk and use this to calculate investors' required return (the cost of capital) for a given project. We will also analyze the impact of leverage on the cost of capital.

Required text: 1. Corporate Finance plus MyFinanceLab, 5th edition, by Jonathan Berk and Peter DeMarzo, published by Pearson. Haas has negotiated a discounted price for the etext, MyFinanceLab and physical textbook in loose leaf format. The price is \$99 via this [link](#): (login: MBA password: berkeley). Please note, if you purchase this option, you will have to wait for your access code to be delivered in the mail which, depending on what shipping option you select, could take 6-8 business days or longer. If you just want to purchase online access (which gives you access to the full MyLab and eText, but no physical textbook), you can do so as you register for the course and select either 18-week access or 24 month access. Note: The link goes to the 4th edition, but when you follow through to the book, it goes to the 5th edition (which is included in the price of the access code). Pearson will not let you buy just the access code without access to the eText.

2. A short introduction to corporate finance, by Raghavendra Rau, published by Cambridge University Press. Available on [Amazon](#) (\$30.99 for the paperback version). You can also access the e-text free through the UC library using a Berkeley IP address. This is meant for readers who do not necessarily want to read through 1,000 pages of Berk and DeMarzo to understand the fundamental concepts of finance. Briefly, this book was written to explain the basic ideas in finance and how the theory links together. The Berk-Demarzo book was written to explain how to implement the theory.

MyLab Finance: You will need an access code for MyLab Finance (the textbook's online resource for doing quizzes). Make sure to buy a version of the textbook that includes an access code for MyLab Finance (this is what I ordered for the bookstore). If you already have a copy of the textbook but not an access code, you can buy an access code as part of the login process. To log into MyLab Finance, see the Student Registration Handout posted on bCourses. Our course id is: 

TurningPoint: You will need to download the TurningPoint app on your phones, iPads, or iPhones before the class begins. Details are on this [link](#). We will need this software to set up an interactive real-time poll during class. When you login, use the session id **ewmba203**. Please use the North American server (even if you are anywhere else in the world). The settings will tell you which server you are on. There is no need to register as you can sign in as a guest.

Zoom: You will need to download the Zoom app before joining a Zoom meeting on a computer or mobile device before the class begins. Step-by-step instructions and a video tutorial are available here: [Joining a Meeting Zoom - Help Center](#). On your class day, just click on one of the two links below.



Laptops: Students should be prepared to use Microsoft Excel. We will use Microsoft Excel extensively throughout the course. Please make sure you have a working copy installed on your laptop. Becoming familiar with Excel is recommended. Section 4.6 and Appendix 7A in the textbook contain an introduction to some of the key financial functions in Excel. Access to a computer with Microsoft Excel for completing problem sets and exams is also required. Financial calculators are not required for this class, though you are welcome to use one if you already know how.

Class norms: We will adhere to the norms identified by Haas students as important for a good learning

environment:

1. Please login before the class begins on Zoom.
2. Do not login late to class.

Preparations: You are expected to do the assigned readings before each class. This will aid your understanding of material presented in class and your ability to ask questions regarding the material and contribute positively to class discussions. We will not always cover all parts of the assigned readings. You are responsible for all material covered in the assigned readings, whether or not we have covered them in detail in class.

To be prepared for each class, students should:

- Read/skim the relevant sections in the textbook
- Read/skim any assigned cases and/or supplementary readings
- Prepare answers to assigned cases.

Workload: The course has been designed so that the median student will spend 6-8 hours per week outside of class studying finance. Those of you with a strong background in finance will spend less time and find the most of the material straightforward. Those of you with little or no background in finance will spend more time and will find some of the material difficult.

Quizzes: Done weekly in MyLab Finance and due on Wednesday evenings after the second class. The problems are done interactively with hints along the way. There is no limit as to how much time you are allowed to spend on the quiz nor how many times you can attempt the quiz. Your worst quiz result will be dropped.

Each person should do the quiz problems using his or her own MyLab Finance account. You may help each other but to make sure everyone gets good practice, you each have to log in and work through the problems online.

Cases: There will be a total of 8 cases in class. Please read the case and prepare case answers before class. Answers to the cases should be turned in (via bCourses) prior to the class in which they are discussed. You should work in your assigned finance study groups to prepare your answers and submit one set of answers per group (only one person needs to upload your group's answers). You are not expected to get all the questions correct, but you should make a reasonable attempt at each one so that you are prepared to actively discuss answers to the case questions in class. The cases will be qualitatively evaluated (not to the extent of getting the "right" answers but in the sense that you have made a plausible attempt at setting up a framework for analyzing the case). These cases are also important for participating in the class discussion, so lack of case preparation will usually impact your class participation marks negatively.

Mid-term exam: The mid-term exam is an individual exam (no help from anyone). Students have the option of dropping the mid-term grade and having the final count for 50% of the final grade. In other words, students who are unhappy with their performance on the midterm are able to substitute the final grade in place of the mid-term grade. This option is automatically invoked at the end of the year if and only if it will benefit the student.

Final exam: This final exam is an individual exam (no help from anyone). It is scheduled by the University for May 18. The exam will take place from 6pm-9pm for all cohorts. All students must take the exam at this time. It is administered over bCourses, so you can

take this exam away from Haas. You will use your laptop to complete the final exam and upload it to bCourses. Power outlets will be available in room during the final exam.

Grades:	Your overall course grade will be based on:	
	MyLab Finance quizzes:	20%
	Cases	20%
	Mid-term exam	25%
	<u>Final exam:</u>	<u>35%</u>

Regrade policy: If you feel that there was an error made in grading your exam, you can submit your exam to me (by email) along with a written explanation of the grading error for a regrade. In this case, the entire exam will be regraded and therefore your score may go up or down. Regrade requests must be made within one week of the graded exams being made available to students. Regrade requests made after this period will be automatically denied. All scores from regraded exams are final.

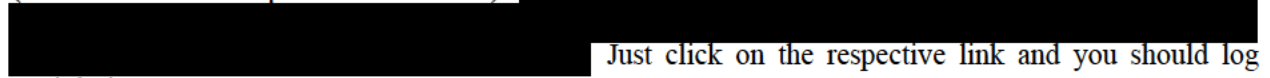
Haas code of conduct:

Students who take this class are bound by the Haas code of ethics. For reference, please see: <https://haas.berkeley.edu/mba/academics/policies-standards/code-of-conduct/>. Nothing less than strict adherence will be accepted. In the case of individual assignments (quizzes, final), this means that each student is fully responsible for completing each assignment on his or her own. That is, no communication about these assignments with **anyone** is allowed unless explicitly stated. Likewise, accessing solutions from the internet or from any third party will also constitute a breach of the ethics code.

Any violations of this will result in an F grade in the class and possibly further action.

Course schedule: For simplicity, topics and readings are presented as full lectures. Some topics may run over to the next lecture. Consequently, we may fall behind the listed schedule a bit at some points and then catch up soon thereafter or vice versa.

Section 1 is on Monday evening (the first date in parentheses below) while Section 2 is on Tuesday evening (the second date in parentheses below).

 Just click on the respective link and you should log straight in.

Class 1 (16 or 17 March)	Brief course introduction: The goal of a firm
	Why NPV? Brief introduction to present and future values
	Readings:
	Berk and DeMarzo Chapter 1, 3
	Rau, Chapter 1, Chapter 2 pages 14-32
Class 2A (23 March)	Present and future values
(Joint Class, N100 Chou)	Exercises on present and future values
	Readings: Berk and DeMarzo Chapter 4, 5.1-5.2
	Rau, Chapter 2, pages 33-36

Class 2B (23 March)	Bond valuation
(Joint Class, N100 Chou)	Readings: Berk and DeMarzo Chapter 6.1-6.4
	Rau, Chapter 2, page 37
Class 3A (30 March or 31 March)	Bond valuation
	Case: The Wilson Family Foundation (on bCourses)
Class 3B (30 March or 31 March)	Stock Valuation
	Readings: Berk and DeMarzo Chapter 9
	Rau, Chapter 2, page 37
Class 4 (6 or 7 April)	Company valuation: The cash flows
	Readings: Berk and DeMarzo Chapter 7-8
	Rau, Chapter 2, page 37
	Case on forecasting cash flows and valuation: MRC Corporation (on bCourses)
Class 5 (13 or 14 April)	Capital budgeting: Project valuation Capital budgeting: Alternative decision rules
	Readings: Berk and DeMarzo Chapter 7-8
	Rau, Chapter 2, page 37-38
	Mini-cases on project valuation: Salvador Motors and Uttar Pradesh (on bCourses)
	Case on comparable company valuation: Wildfire Industries (on bCourses)
19 April (Sunday)	Mid-term exam for both sections 6pm-9pm
Class 6 (20 or 21 April)	Computing the required rate of return: Diversification and optimal portfolio choice
	Readings: Berk and DeMarzo Chapter 10.1-10.6, 11.1-11.5
	Rau Chapter 3 pages 42-64
Class 7 (27 or 28 April)	The CAPM and other asset pricing models
	Mini-case on cost of capital calculations: Bayou Petroleum (on bCourses)
	Readings: Berk and DeMarzo Chapter 10.7-10.8, 11.6-11.8
	Rau Chapter 3 pages 64-69
Class 8 (4 or 5 May)	The CAPM: Using it to estimate the cost of capital for an equity-financed project
	Case on the cost of capital: Marriott Inc Cost of Capital (on bCourses)
	Readings: Berk and DeMarzo Chapter 12.
Class 9A (11 or 12 May)	Adjusting the required rate of return for the capital structure of the firm
	Readings: Berk and DeMarzo Chapter 14.1-14.3.
	Berk and DeMarzo Chapter 15.1-15.2, 18.1-18.3.
	Rau, Chapter 4
Class 9B (11 or 12 May)	Summing up
	Case on valuation: Hope Enterprises (on bCourses)
18 May (Monday)	Final exam for both sections 6pm-9pm.