

# Syllabus

## EW MBA 203, Core Finance – Spring 2016



### Class

**instructor:** Professor Marcus M. Opp ([mopp@haas.berkeley.edu](mailto:mopp@haas.berkeley.edu))  
**office:** F608  
**office hours:** By appointment  
**class time:** Oski Cohort: Saturday C220 9AM-1PM  
Axe Cohort: Saturday C210 2PM-6PM  
(except for Canada College on: April 16, April 30, and May 14, 2016)  
**class Reps:** Oski: Karen Go and Noe Lutz  
Axe: Brian Lewis and Stephen Harvey

### Review session

**instructor:** Paulina Roszkowska ([proszkowska@haas.berkeley.edu](mailto:proszkowska@haas.berkeley.edu))  
**office hours:** Thursday: 7pm – 8.30pm (ONLINE only, after prior email appointment) and via email  
**review sessions:** Tuesday: 7pm – 8.30pm (ONLINE only)  
through Adobe Connect: <http://haasberkeley.adobeconnect.com/ewmba203/>  
**dates:** March: 29  
April: 5, 12, 19, 26  
May: 3, 10

**overview:** This is an introductory course in finance. Students learn how to value assets and businesses given forecasts of future cash flows. The course also concentrates on the risk characteristics of different asset classes. The first part of the course focuses on stocks, bonds and interest rates. The second part of the course deals with measuring and pricing risk. The third part of the course introduces students to valuation. This course will combine the theoretical underpinnings of finance with real-world examples, including several case discussions.

**important dates:** First class: March 19  
First review session: March 29  
Midterm: April 16 (due April 23)  
**Final:** May 14, 10 am - 1pm (for both cohorts, no exceptions)

- required text:**
- Corporate Finance, by Jonathan Berk and Peter DeMarzo, **3rd Edition**, published by Pearson, ISBN: **9780133424157**
  - IMPORTANT NOTE: You will need the My Finance Lab Access Kit (see below): This kit is already included in the book.
- myFinanceLab:**
- Register at <https://registration.mypearson.com/>, see handout on bCourses.
  - Course ID: **opp92048**
  - Your Log-in must be your 8-digit Berkeley Student ID or your CALNET ID! When you are prompted for first and last name, use the same name as in your official Berkeley record.
- also required:**
- **Any calculator** that can calculate an IRR (internal rate of return) is sufficient for this class. Some financial calculators (like the HPC 12C) have other functions that are helpful, but these functions are NOT necessary for the purpose of this class.
  - **Turning Clicker** (will be handed out to you in first class!)
  - Access to a computer with Internet access and Microsoft Excel
- homepage:** We will be using bCourses and study.net.
- readings:** You are expected to do the assigned readings before each class. Re-reading after class is encouraged as it will help solidify the concepts just presented.
- time:** We expect the median student to spend at least 1 hour per day studying finance outside of class everyday (based on a six day week.)
- ethics:** Students who take this class are bound by the Haas code of ethics. For reference please see: <http://www.haas.berkeley.edu/MBA/academics/academic/code-of-conduct.html>. Nothing less than strict adherence will be accepted. In certain situations (case submissions) students may work together in groups of no more than four. Each student is still responsible for understanding, and being able to complete the case on his or her own.
- We ask students to refrain from behavior that has been demonstrated to interfere with a positive classroom experience. This especially includes holding any type of side conversation (voice, electronic, telepathy, etc.) and using laptops to surf the Web, check e-mail, etc.
- cheating:** If you are caught cheating in one exam (midterm or final) you will automatically fail the class.

**grades:** Your overall course grade will be based on homeworks (MyFinanceLab), participation, one midterm, 3 group projects (3-4 members) and a final exam.

Homeworks:	10.0 %
Participation	5.0%
Mid-term	25.0 %
Group Project	10.0 %
<u>Final exam:</u>	<u>50.0 %</u>
Total	100.0 %

**homeworks:** The assigned weekly homeworks (see bCourses and MyFinanceLab) have to be completed by the due date. The lowest score on the homework will not enter your homework grade.

**participation:** Attending and participation in class will help you learn the material, aid class discussions, and benefit your fellow students. Attendance of lectures is mandatory.

**mid-term:** There is one take-home midterm on April 16 (due April 23). All students must take the exam. The midterm is worth 25% of the course grade.

**group project:** A group should consist of 4 students max (three students minimum)

- You cannot switch groups
- The group project consists of several subprojects:
  - o Ocean Carrier Case (study.net) due April 9 (Lecture 3)
  - o Berk DeMarzo Data Case chapter 10, due April 23 (Lecture 5), (Hint: p. 349)
  - o Berk DeMarzo Data Case chapter 11 due April 30 (Lecture 6), (Hint: p. 396)
- You have to hand in hardcopy solutions before the class starts. We pick random groups to check their Excel files.
- There will be no partial credit for any question (You have time to ensure accuracy of results)

**final exam:** There is a final exam in this course, scheduled by the university. All students will take the exam at the official time slots.

**grade options:** Students have two (mutually exclusive) options:  
1) Drop mid-term, and having the final count for 75% of the final grade.  
2) Drop Homeworks, Participation & Group project and having the final count 75% of the final grade

NOTE: Midterm participation is mandatory. The most beneficial option is **automatically** invoked at the end of the course!

## Organization of Class:

Sub-Topic	Agenda	Reading Assignments
<b>Module 1 – Investors, Firms and Financial Decision Making</b>		
1	The Corporation, Cash flows associated with stocks, bonds and certain derivatives.	R: 1.1 U: 1.2-1.3
2	How investors make decisions, NPV Rule, Present Value Calculations	R: 3.1-3.3, 4.1-4.5, 4.9 U: 4.6-4.8
3	Interest Rates, Inflation: nominal vs. real interest rates, Carloan Case	R: 5.1-5.3, 5.5., Carloan Case (bspace)
4	Alternative Valuation Methods	R: 7.1-7.4 (no incremental IRR)
5	Capital Budgeting: Understanding the role of taxes, Determination of Free Cash Flows, Ocean carrier case (study.net)	R: 8.1-8.5. U: Chapter 2
<b>Module 2 – Valuation of Securities</b>		
1	Introduction to Pricing of Securities, No-Arbitrage, Efficient Markets and Security Prices	R: 3.4-3.5
2	Bond Pricing: Spot rates, Yield to maturity, Corporate bond ratings	R: 6
3	Simple stock valuation, Dividend Growth Model, Comparables Valuation	R: 9.1-9.2, 9.4 U: 9.3, 9.5
4	Statistics Overview (Mean, Volatility/ Variance, Covariance, Estimation Error), Application to Stock Portfolios, Diversification, Systematic vs. Idiosyncratic risk	R: 10.1-10.6, 11.1-11.3
5	The Capital Asset Pricing Model. Portfolio theory and the relationship between risk and return, Implementation of CAPM (Estimating the Cost of Capital)	R: 11.4-11.8, 10.7-10.8, 12.1- 12.4
<b>Module 3 – Capital Structure</b>		
1	Capital Structure in Perfect Markets, Modigliani-Miller Theorem	R: 12.5, 14
2	Capital Structure with Taxes, Firm Valuation	R: 15.1-15.3, 18.1-18.3, 18.6
<b>Module 4 – Derivatives (NOT covered)</b>		
1	Introduction to Options	R: 20

R = Required Reading (before class)

U = Useful Reading (background information)

## **Log File EWMBA 203, Spring 2016**

### **Lecture 1, March 19 2016, Berkeley Campus**

- Introduction to class with Examples
- Syllabus discussion
- Module 1 01: Introduction to language completed
- Module 1 02: NPV rule completed
- Module 1 03: Interest rates completed up to Carloan case

### **Lecture 2, April 2 2016, Berkeley Campus**

- Discuss Carloan Case (see Cases under “Files” on Bcourses) completed
- Module 1 04 Alternative Valuation methods completed
- Module 1 05 Capital Budgeting completed

### **Lecture 3, April 9 2016, Berkeley Campus**

- Discuss (briefly) Ocean Carrier Case completed
- Module 2 01 Securities pricing completed
- Module 2 02 Bond pricing (excluding forward rates) completed

### **Lecture 4, April 16 2016, Canada College**

- Module 2 03 Stock pricing completed
- Module 2 04 Statistics (up to slide 36)

### **Lecture 5, April 23 2016, Berkeley Campus**

- Complete Module 2 04 Statistics completed
- Module 2 05 CAPM Theory (up to slide 38)

### **Lecture 6, April 30 2016, Canada College**

- Module 2 05 CAPM Theory completed
- Module 2 05 CAPM in Practice completed
- Module 3 01 Capital structure in perfect capital markets (up to slide 48)

### **Lecture 7, May 7 2016, Berkeley Campus**

- Complete Module 3 01: Capital structure in perfect capital markets
- Complete Module 3 02: Capital structure with Taxes
- Review of class and Class evaluations