

UNIVERSITY OF FLORIDA  
Warrington College of Business Administration

Finance 4414, Spring 2015  
Financial Management

7:25am Tues Thurs (section 2109) Heavener 220  
9:35am Tues Thurs (section 2111) Heavener 220

Professor J. R. Ritter  
Stuzin 327  
January 29, 2015

**Office Hours:** I will be in my office on Thursday afternoons from 4:00-5:30 with a high probability. My e-mail address is <jay.ritter@warrington.ufl.edu>.

**Course Objectives and Scope:** The purpose of this course is to develop an understanding of modern corporate finance so that the student will have the conceptual foundations for making intelligent corporate financial decisions. The course includes an in-depth analysis of capital structure theory, the cost of capital, and firm valuation. Option pricing theory is reviewed and applied to the valuation of warrants and convertible bonds. Attention is focused on raising external capital, both for publicly traded firms and firms going public. Venture capital will also be discussed. The rationales for buyouts and mergers and acquisitions (M&A) will be analyzed. Throughout the course theoretical analysis will be integrated with evaluation of the empirical evidence and analysis of specific examples. If you are not already familiar with Excel, get up to speed.

**Readings:** The textbook is the tenth edition of Ross, Westerfield, and Jordan's *Fundamentals of Corporate Finance* (alternate edition) with ExcelMaster and Connect Plus, ISBN 9780077479459 for the book. This book (henceforth RWJ) is the 2012/13 edition, and the alternate edition contains more chapters than the standard edition, and all of the extra chapters are required reading. So **make sure that you buy the alternate edition rather than the standard edition.** The online homework that is called Connect Plus is bundled with the book if you buy it new or buy the e-book from McGraw Hill. *Option 1* is buying the new book bundled with Connect Plus (book + the online homework which is not required). This costs about \$235.50 + tax. *Option 2* is buying a used book and spending \$110 for Connect Plus. *Option 3* is to buy the e-book for \$110 (I negotiated a \$20 discount for U of Florida students) which is bundled with Connect Plus. If you do this, you can also buy a loose leaf version of the book for another \$40. McGraw-Hill does not sell the new edition without Connect Plus. If you buy the book new or buy the e-book, you get Connect Plus for 'free'. **My recommendation is to buy the e-book with Connect Plus on-line at**

**for section 2109 at 7:25am:**

<http://connect.mheducation.com/class/j-ritter-725am-tt-section-2109-spring-2015>

**for section 2111 at 9:35am:**

<http://connect.mheducation.com/class/j-ritter-935am-tt-section-2111-spring-2015>

A packet that contains a collection of published articles and old examinations will be available at Target Copying (directly across the street from Matherly Hall) starting in January. Students should make every effort to read assigned materials prior to the class discussion. Many of the assignments will involve

cases. Rather than having you purchase expensive cases produced by the University of Virginia's Darden School and Harvard Business School, a lot of material can be downloaded for free from the web. Thus, the coursepack is relatively cheap. Some of the cases will involve situations that develop during the semester. You might want to subscribe to the *Wall Street Journal* at [WSJ.com/studentoffer](http://WSJ.com/studentoffer) (15 weeks for \$15).

**Homework:** Ten Connect Plus problem sets will be assigned and graded online, due on Thursday evenings. There will also be 13 group assignments, many of which involve cases that will be collected in class. Class participation will be counted in the grading.

**Grading:** Course grades will be based upon a midterm exam (30%), a comprehensive final exam (30%), Connect Plus assignments (10%), group problem sets and cases (30%), and class participation (10%). The midterm exam will be in class on Tuesday, February 24. The final exams will be given on Monday, April 27 from 5:30-7:30pm and Wednesday, April 29 from 5:30-7:30pm. You can take either final.

**Other Stuff:** Computer usage (including anything connected to the internet) in class is not permitted.

#### **Course Outline - Finance 4414**

##### **I. Valuation**

RWJ Chapter 8  
Ivo Welch, Chapter 14 of Ivo Welch's *Corporate Finance: An Introduction*, "Valuation from Comparables and Financial Ratios"  
Welch's chapter is in the coursepack.

##### **II. The Cost of Capital**

Jay R. Ritter, "The Relation between Book-to-Market and Returns"  
Assignment #1 (due Jan. 13)

##### **III. Raising Capital**

RWJ Chapter 15  
Assignment #2 (due Jan. 20) Latitude 360 assignment

##### **IV. Venture Capital**

William Sahlman, "Aspects of Financial Contracting in Venture Capital," *Journal of Applied Corporate Finance* (Summer 1988).  
Assignment #3 (due Jan. 27) LendingClub assignment

##### **V. IPOs and Follow-on Offerings**

Tim Loughran and Jay Ritter, "Why Has IPO Underpricing Changed Over Time?," *Financial Management* (Autumn 2004). You can skip section V.B. (including Table VI) on pp. 27-30.  
Assignment #4 (due Feb. 3) Google assignment

Assignment #5 (due Feb. 10)

##### **VI. Capital Structure**

RWJ Chapter 16

Assignment #6 (due Feb. 17)

**VII. Payout Policy**

RWJ Chapter 17  
Assignment #7 (due Feb. 24)

**VIII. Behavioral Finance**

RWJ Chapter 22

**IX. Enterprise Risk Management**

RWJ Chapter 23  
Jay R. Ritter, "How I Helped to Make Fischer Black Wealthier,"  
*Financial Management* (Winter 1996), Vol. 25, No. 4, pp. 104-107.  
Assignment #8 (due March 17)  
*Yale University Investments Office 2013 report is available  
at <http://investments.yale.edu>*

**X. Options**

RWJ Chapter 24  
Assignment #9 (due March 24)

RWJ Chapter 25  
Assignment #10 (due March 31)

**XI. Mergers and Acquisitions, and LBOs**

RWJ Chapter 26  
Maury Wolff, "Few Were the Tender Offers in Erie Takeover," *Wall  
Street Journal* (February 31, 1985).  
Assignment #11 (due April 7)

**XII. Leasing**

RWJ Chapter 27  
*Chrysler auto leasing case*  
Assignment #12 (due April 14)

**XIII. Pensions**

Robert Novy-Marx and Joshua Rauh, "Public Pension Promises: How Big  
Are They and What Are They Worth?" *Journal of Finance* (August 2011),  
Vol. 66, No. 4, pp. 1211-1249.  
Assignment #13 (due April 21)

### Class Plan for Finance 4414

1. Tues, Jan. 6	Chapter 8 of RWJ Valuation
2. Thurs, Jan. 8	Ch. 14 of Welch
3. Tues, Jan. 13 (#1 due)	
4. Thurs, Jan 15	Ch. 15 of RWJ Raising capital (VC PPT)
5. Tues, Jan 20 (#2 due)	Sahlman (1988), VC method
6. Thurs, Jan. 22	Loughran and Ritter (2004 <i>FM</i> ), IPOs
7. Tues, Jan. 27 (#3 due)	LendingClub case
8. Thurs, Jan. 29	IPOs
9. Tues, Feb. 3 (#4 due)	Google case, auctions vs. bookbuilding
10. Thurs, Feb. 5	Ch. 16 of RWJ financial leverage
11. Tues, Feb. 10 (#5 due)	financial leverage
12. Thurs, Feb. 12	Ch. 17 of RWJ Dividends and Payout Policy
13. Tues, Feb. 17 (#6 due)	
14. Thurs, Feb. 19	Ch. 22 of RWJ Behavioral Finance
15. Tues, Feb. 24	Midterm exam
16. Thurs, Feb 26	Ritter (1996)
17. Tues, March 10 (#7 due)	Ch. 23 of RWJ Risk Management
18. Thurs, March 12	
19. Tues, March 17 (#8 due)	Yale Endowment case
20. Thurs, March 19	Ch. 24 of RWJ Options and Corp Fin
21. Tues, March 24 (#9 due)	Ch. 25 of RWJ
22. Thurs, March 26	
23. Tues, March 31 (#10 due)	Ch. 26 of RWJ M&A
24. Thurs, April 2	Ch. 27 of RWJ Leasing
25. Tues, April 7 (#11 due)	Chrysler leasing case
26. Thurs, April 9	
27. Tues, April 14 (#12 due)	
28. Thurs, April 16	pensions, Novy-Marx and Rauh (2011)
29. Tues, April 21 (#13 due)	State of Florida pensions case
<b>Mon or Wed, April 27 and 29</b>	<b>5:30-7:30pm Final Exam</b>

**Coursepack Contents:**

1. Chapter 14 of Welch's textbook
2. Sahlman's 1988 *Journal of Applied Corporate Finance* "Aspects of Financial Contracting in Venture Capital"
3. Google case (IMD185)
4. Loughran and Ritter's 2004 *Financial Management* "Why Has IPO Underpricing Changed over Time?"
5. Ritter's 1996 *Financial Management* "How I Helped Make Fischer Black Wealthier"
6. Wolff's 1985 *WSJ* "Few Were the Tender Offers in Erie Takeover"
7. Chrysler leasing case (Georgetown)
8. Novy-Marx and Rauh's 2011 *Journal of Finance* "Public Pensions Promises: How Big Are They and What Are They Worth?"
9. Spring 2011 midterm, midterm answers, final, and final answers