

UNIVERSITY OF FLORIDA
College of Business Administration
DEPARTMENT OF FINANCE

Finance 4414, Spring 2006
Financial Management

Professor J. R. Ritter
Stuzin 327

Office Hours:

I will be in my office on Wednesday afternoons from 2:30-5:30 with a high probability. My e-mail address is <jay.ritter@cba.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 begins with an in-depth analysis of capital structure theory, the cost of capital, and firm valuation. Option pricing theory is then 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 leveraged buyouts and takeovers are then analyzed. Throughout the course theoretical analysis will be integrated with evaluation of the empirical evidence and analysis of specific examples. The course will make use of spreadsheets, and information downloaded from the World Wide Web. Several useful sites include the SEC's EDGAR system (<http://www.sec.gov>), and the *Journal of Finance* (<http://www.afajof.org>). The latter has links to lots of other sites, including option pricing programs.

Readings:

A packet which contains a collection of problem sets, cases, published articles, newspaper clippings, and old examinations is available at Target. Thirteen chapters are also assigned from *Financial Management* (11th edition) by Brigham and Ehrhardt. There is also a book, *IPOs for Everyone* by Killian, Smith, and Smith (Wiley) that is included as part of the coursepack, available at Target copying (directly across the street from Matherly Hall). Students should make every effort to read assigned materials prior to the class discussion. Students should also have access (such as by subscribing) to the *Wall Street Journal*. Articles will be assigned (without being distributed) during the semester as relevant developments occur in the corporate and financial communities.

Homework:

Thirteen problem sets will be assigned and graded. These should be done in groups of 3 or 4 students, and handed in as a group. Many of these involve cases. Class participation will be counted in the grading.

Grading:

Course grades will be based upon a midterm exam (25%), a comprehensive final exam (40%), and group problem sets and cases (35%). The midterm exam will be in class on Tuesday, February 28. The final exam will be given on Wednesday, May 3 at 7:30am and 3pm and Thursday, May 4 at 8pm.

Course Outline - Finance 4414**I. Economic Value Added**

Brigham and Ehrhardt, Chapter 3

Brigham and Ehrhardt, Chapter 7

Assignment #1 (UPS vs. Fed Ex 2004 case)

II. The Cost of Capital

Brigham and Ehrhardt, Chapter 9

Brigham and Ehrhardt, Chapter 11

Jay R. Ritter, "The Relation between Book-to-Market and Returns"

Assignment #2 (Harry Davis case)

III. Capital Structure

Brigham and Ehrhardt, Chapter 16

Assignment #3 (PizzaPalace case)

Brigham and Ehrhardt, Chapter 17

Assignment #4 (Lyons Solar Technologies case)

IV. Option Pricing

Brigham and Ehrhardt, Chapter 8

Assignment #5 (British Petroleum offering case study)

V. Warrants and Convertibles

Brigham and Ehrhardt, Chapter 21

Assignment #6 (Chrysler warrants case study)

VI. Leasing

Brigham and Ehrhardt, Chapter 20

Assignment #7 (America West case study)

VII. Venture Capital

William Sahlman, "Aspects of Financial Contracting in Venture Capital," *Journal of Applied Corporate Finance* (Summer 1988).

Assignment #8 (Burlington Northern leasing case)

VIII. IPOs and Follow-on Offerings

Brigham and Ehrhardt, Chapter 19

Susan Chaplinsky, "Valuing the Early Stage Company"

Assignment #9 (Mindersoft, Inc.)

Linda Killian, Kathleen Smith, and William Smith, *IPOs for Everyone*.

Robert Hof, "Inside an Internet IPO" *Business Week* (Sept. 6, 1999).

Assignment #10 (F&C International case study)

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.

IX. Risk Management

Brigham and Ehrhardt, Chapter 23

Assignment #11 (AT&T Wireless case study)

X. Mergers and Acquisitions, and LBOs

Brigham and Ehrhardt, Chapter 25

Assignment #12 (Ravenswood Winery case study)

Maury Wolff, "Few Were the Tender Offers in Erie Takeover," *Wall Street Journal* (February 31, 1985).

Assignment #13 (case)

Assignment Due Dates for Finance 4414

Assignment #	Date Due
1	Tuesday, January 17
2	Tuesday, January 24
3	Tuesday, January 31
4	Tuesday, February 7
5	Tuesday, February 14
6	Tuesday, February 21
7	Tuesday, March 7
8	Tuesday, March 21
9	Tuesday, March 28
10	Tuesday, April 4
11	Tuesday, April 11
12	Tuesday, April 18
13	Tuesday, April 25

The following is from the University of Florida *Code of Student Conduct*:

The academic community of students and faculty at the University of Florida strives to develop, sustain and protect an environment of honesty, trust and respect. Students are expected to pursue knowledge with integrity. Exhibiting honesty in academic pursuits and reporting violations of the Academic Honesty Guidelines will encourage others to act with integrity. Violations of the Academic Honesty Guidelines shall result in judicial action and a student being subject to the sanctions in paragraph XI of the Student Conduct Code. The conduct set forth hereinafter constitutes a violation of the Academic Honesty Guidelines (University of Florida Rule 6C1-4.017).

Cheating. *The improper taking or tendering of any information or material which shall be used to determine academic credit. Taking of information includes, but is not limited to, copying graded homework assignments from another student; working together with another individual(s) on a take-home test or homework when not specifically permitted by the teacher; looking or attempting to look at another student's paper during an examination; looking or attempting to look at text or notes during an examination when not permitted. The tendering of information includes, but is not limited to, giving of your work to another student to be used or copied; giving someone answers to exam questions either when the exam is being given or after taking an exam; giving or selling a term paper or other written materials to another student; sharing information on a graded assignment.*

Plagiarism. *The attempt to represent the work of another as the product of one's own thought, whether the work is published or unpublished, or simply the work of a fellow student. Plagiarism includes, but is not limited to, quoting oral or written materials without citation on an exam, term paper, homework, or other written materials or oral presentations for an academic requirement; submitting a paper which was purchased from a term paper service as your own work; submitting anyone else's paper as your own work.*

So that there is no confusion, here are my expectations:

1. Students are strongly encouraged to work with their classmates to study, work problems and cases, and prepare for classes and exams. The goal is to maximize your understanding of the material.
2. Students are expected to include only their own work on the midterm and final exams. On the weekly assignments, students are expected to hand in a group assignment, but each group is expected to do its own independent work. Cheating, as defined above, will not be tolerated.
3. Students are expected to contribute fully to each and every team assignment. Therefore, it is not permissible, say, for a team to split the case write-up and the company report so that each member of the team only contributes to part of an assignment. Each student is expected to come to class prepared to discuss and present all of every assignment.
4. Plagiarism, as defined above, is not acceptable.

As a student at the University of Florida, you have free access to many of the online services that usually require a subscription. However, you will either need to access these services through a Library-related computer, or go through a "Proxy Server" using your GatorLink account username and password. To access the online Business Library section of the Smathers Library, go to

<http://www.uflib.ufl.edu/cm/business/>

On the right of the top line, click on Remote Logon. This will take you to a page that allows you to connect to on-campus services using the Library Proxy Server:

<http://www.uflib.ufl.edu/ufproxy.html>

At the bottom right of the screen, fill in your GatorLink Account Username and Password, and then click Login. This will take you back to the Smathers' Library page, but using the Proxy Server:

<http://www.uflib.ufl.edu.lp.hscl.ufl.edu/ufproxysuccess.html>

In the middle of the page you will see "Start". Go to the dropdown menu under "Or..." and choose "Business (Online)". This will take you back to the online Business Library, but through the Proxy Server:

<http://www.uflib.ufl.edu.lp.hscl.ufl.edu/cm/business/>

You could also click on "UF Libraries' Home Page", then "Libraries & Collections" under "About the Libraries", and then "Business Reference" under "Smathers Library (East)".
