

**THE UNIVERSITY OF CALGARY
THE HASKAYNE SCHOOL OF BUSINESS**

**Finance 753
Problems in Financial Management
Course Outline Winter 2014**

INSTRUCTOR	Blake C. Fleming
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WEBSITE	http://blackboard.ucalgary.ca
OFFICE HOURS	By appointment only
LECTURE LOCATION	PF 118
LECTURE TIME	Thursday 18:30 to 21:20

COURSE DESCRIPTION This course addresses the role of the Chief Financial Officer (“CFO”) as the primary business advisor in the firm. Within a typical firm the Chief Executive Officer (“CEO”) role would focus on vision and strategy – setting the overall goals for the firm plus building and leading a team to execute that strategy. The CFO applies financial market knowledge and analysis to test and support that strategy. Together they work to make decisions that add value for the firm and its stakeholders.

This is a practical course, presenting an opportunity to apply finance theory learned in prior course(s) to business cases. The emphasis is on practice – given a business problem, what does finance theory say about the problem at hand, what decisions should be taken, how should the solution be presented to management?

Initial cases focus on the Capital Asset Pricing Model and portfolio theory, and explore how this core financial theory is applied to real business problems. Additional topics include loan analysis for a small business, pensions, and executive compensation viewed from the perspective of the CFO. Students work in groups to analyse the cases, and are expected to individually write a two page decision memo each week.

Modern financial theory provides tools and insights to help solve business problems that corporations deal with every day. The financial market turmoil since mid 2007 provides an opportunity to ask whether financial theory and practice can lead corporations into serious trouble. How good are the models? When should we be careful? What are the pitfalls? We examine two perspectives on the mortgage-backed securities meltdown.

Enrolment in this course is restricted to 30 students. In 2009 there were 16

students. In each of 2010, 2011, and 2012 there were 30 students with a wait list. As of November 2013, there are 17 students enrolled for the January 2014 course – so there is still space for interested students.

**COURSE OBJECTIVE
AND TEACHING
METHOD**

The objective of the course is to prepare students to apply finance theory to real world problems. There are 12 cases in the course (11 with write-ups required) intended to illustrate a range of problems. Where possible we have selected cases with relevance to the Canadian business environment.

The teaching method is case discussion, supplemented by occasional readings. Marks will be based on class participation, case “decision memos”, a short paper, and a final take-home case.

This is not a finance theory course. Students should have been exposed to relevant theory in prior courses, and are expect to “learn by doing” as they work through the case problems. Finance 601 should be adequate background preparation for this course. The instructor believes that the marketplace expects any well-rounded MBA graduate to be able to tackle the problems discussed in this course.

A discussion of the course objectives and overview is available on Blackboard or Desire2Learn. (We are working on the transition).

**ASSIGNED CASES AND
REQUIRED READINGS**

Cases for this course and some readings from the Harvard Busienss Review are listed below together with references to IVEY, Harvard, Darden, and Stanford business schools. Students are responsible for acquiring the cases and readings. If you are not familiar with how to do this please check with Zahra Hossain in the Finance Office. Additional readings plus one case are available through Blackboard. Students are also expected to acquire and read Michael Lewis’ book “The Big Short”, and Gary Gorton’s book “Slapped by the Invisible Hand: The Panic of 2007”. These books are available from Amazon and perhaps the bookstore. You are welcome to share books or utilize electronic versions.

This approach to providing cases and readings is undertaken to ensure compliance with copyright rules. The instructor has received permissions to post the relevant material on Blackboard.

There will be a case discussion on January 9, so please be ready to go! You should check the course documents section for recommended readings prior to January 9.

In addition to the readings, students should acquire or have access to a good Finance textbook. You may need to refer to this textbook to review finance theory appropriate to the assigned case problems.

Here are three finance textbooks for your consideration:

Grinblatt & Titman, “Financial Markets and Corporate Strategy”

Berk & DeMarzo, “Corporate Finance”

Sick et al, “Principles of Corporate Finance”

For more information, please contact:

Zahra Hossain (hossainz@ucalgary.ca; 403.220.8527) or Blake Fleming (bcflemin@ucalgary.ca)

About your instructor

Blake Fleming graduated from Carnegie Mellon University in 1979 from the Tepper School of Business (then named GSIA) with a Master of Science in Industrial Administration. He joined Dome Petroleum as a Business Analyst. More recently he was Sr. Vice President and Chief Operating Officer at Esprit Exploration Ltd, and prior to that Vice President, Hunter North Business Unit at Canadian Hunter Exploration Ltd. He has served as a director of three private companies and officer/director with two community volunteer boards. Currently he is active as a community volunteer and manages his own investments. Much of his career has been spent as a senior business advisor analysing commercial problems within the oil & gas sector.

CLASS PREPARATION

This is a case course. Students learn finance by working the cases, and getting feedback from the instructor and other students. The expectation is that if you do the work you should complete the course with a deeper and broader knowledge of finance than when you started.

CONTACTING YOUR INSTRUCTOR

Students requiring assistance or who have questions about the course are encouraged to speak to their instructor during or after class. Should you wish to meet with the instructor, please email the instructor to make an appointment.

PROPER BUSINESS USE OF EMAIL

Email is commonly used by students to communicate with their instructor. However, it does limit the effectiveness of the communications and may not be the best way for instructors to answer student questions, especially those requiring an explanation of concepts covered in this course or some personal concerns. Therefore the instructor may request a telephone call or personal meeting.

INTERNET & ELECTRONIC COMMUNICATION DEVICES

Any surfing of the Internet during lectures that is not directly related to the class discussion is distracting and strictly forbidden. Additionally, the use of any electronic devices (e.g., cellular phones, Blackberries) for e-mailing, text-messaging, etc. is strictly prohibited. Please turn OFF your phone before the beginning of each lecture. In those courses for which there is a “class participation” component, it is within the discretion of the instructor to determine the appropriate grade.

GRADING

Class participation	10%
Case “decision memos”	50%
Paper	25%
Final Exam	15%
	100%

Case Decision Memos	For each case except the first one (January 9) each student is expected to prepare a two-page (maximum) decision memo recommending appropriate action and giving supporting reasons. Students are encouraged to work on cases in small groups, but are expected to individually prepare the weekly decision memos. Grading will be based both on writing proficiency and on the case analysis.
Paper	Students will be asked to prepare for February 27 a short (maximum 3 page) paper based on Michael Lewis' book "The Big Short" and Gary Gorton's book "Slapped by the Invisible Hand". These will be the subject of class discussion on February 27. As with the case write-ups, students are encouraged to discuss the books with others, but prepare the paper individually. Students should acquire these books in plenty of time to read them and prepare for the paper. The question for the paper will be provided in class on February 13.
Final Exam	A Hand-In Case Analysis will constitute the final exam for the course. At the end of class on April 3, you will be provided with a case to analyse (most likely we will give you a reference to a Harvard or Ivey case and you will need to acquire it). You may discuss your analysis with other members of the class, but each member of the class is responsible for handing in their own individual written case analysis by the beginning of class on April 10. Additional details will be provided at the time the case is distributed.
GRADE SCALE	<p>The Haskayne School of Business endeavours to ensure consistency of final grades across courses and sections. Variations in distribution will always be considered by the instructor where called for by the performance in each individual class. The student does not have any 'right' to a certain grade, but is responsible for earning grades. The instructor has unfettered discretion to evaluate student performance and assign all grades.</p> <p>This course involves analysing cases and writing business decision memos. Over the past four years the grades were bunched in the B+/A- range. Students who regularly attended class and completed the assigned work passed with a B- or better. Based on ex-poste discussions with students the value of the course in terms of increased financial understanding wasn't necessarily correlated with the grades earned.</p>
Student Feedback	<p>Students provide feedback to the instructor towards the end of each term. Here is a summary of the highlights of the written feedback for the past four years.</p> <p>First, most students liked the course and indicated that they learned relevant material that would be useful on the job.</p>

Second, many students felt that they were not fully prepared by prior theory courses. Some students expressed frustration that the instructor did not first present the directly relevant theory, and then have them work the case. Other students suggested that the case methodology employed, which was to work the case first and review the theory as part of the class discussion later, forced them to struggle through the theory, refer to textbooks and generally seek to discover and learn the finance required to solve the case. This group felt that this “learn by doing” approach helped them learn how to approach and solve finance problems. Also, it would be similar to the approach they would need to take with unfamiliar finance problems encountered in professional life.

In response to this feedback we will review financial theory, modelling techniques and writing formats early in the course.

Third, students liked reading “The Big Short” and “Slapped by the Invisible Hand”, which are the materials for the midterm paper. Students should prepare for this paper by acquiring and reading the two assigned books early. Lewis’ “Big Short” is readily available in bookstores; Gorton’s “Slapped” is not, although there may be a few residual copies still in the University bookstore under Finance 753. Otherwise it is possible to acquire copies through Amazon or similar sources.

Fourth, students expressed the view that the instructor provided lots of real-world finance examples and demonstrated practical knowledge.

Fifth, some students expressed frustration with the grading. Papers are graded for English and communication skills as well as financial analysis and presentation. Weekly case write-ups are normally graded out of 6, and a typical mark would range from 3 to 5 out of 6. At the end of the course the Instructor attempts to ensure that the overall course grades are consistent with other Finance courses, and that the grades earned reflect the effort and achievements of the students in the course.

Finally, students indicated that this course was very demanding and required a lot of work. This is consistent feedback – students felt they learned a lot but had to work really hard.

UNIVERSITY REGULATIONS

Academic Accommodation:

The Disability Resource Centre offers services to students with documented disabilities ranging from learning deficit, learning disabilities, chronic health issues, hearing and visual impairment, disabilities and temporary impairment due to accident, illness or injury. It is the student's responsibility to request academic accommodations. If you are a student with a documented disability who may require academic accommodation and have not registered with the Disability Resource Centre, please contact their office at 220-8237. Students who have not registered with the Disability Resource Centre are not eligible for formal academic accommodation. You are also required to discuss your needs with your instructor no later than fourteen (14) days after the start of this course.

Academic Honesty:

Academic honesty is the cornerstone in the development of knowledge. A single offence of cheating, plagiarism or other academic misconduct on term work, tests or final examinations or assignments can lead to disciplinary probation, suspension or expulsion from the Faculty by the Dean. If a student allows his/her name to stand on group work when in fact there is essentially no contribution made, then that student is guilty of academic misconduct. Please refer to the current University Calendar for further details.

Plagiarism:

Plagiarism involves submitting or presenting work as if it were the student's own work when it is not. Any ideas or materials taken from another source written, electronic, or oral must be fully and formally acknowledged. Plagiarism includes but is not limited to:

- (a) The work submitted or presented was done, in whole or in part, by an individual other than the one submitting or presenting the work (this includes having another impersonate the student or otherwise substituting the work of another for one's own in an examination or test),
- (b) Parts of the work are taken from another source without reference to the original author,
- (c) The whole work (e.g., an essay) is copied from another source, and/or,
- (d) A student submits or presents work in one course which has also been submitted in another course (although it may be completely original with that student) without the knowledge of or prior agreement of the instructor involved.

While it is recognized that scholarly work often involves reference to the ideas, data and conclusions of other scholars, intellectual honesty requires that such references be explicitly and clearly noted. Plagiarism is an extremely serious academic offence.

It is recognized that clause (d) does not prevent a graduate student incorporating work previously done by him or her in a thesis or dissertation.

Software Policy:

Faculty, students and staff of the University of Calgary are expected to use software in a lawful manner in accordance with the Canadian law of copyright and the software's specific license conditions.

Copyright and Photocopying:

All material used in the course is for the sole use of the individual and should not be copied in either print or digital format. For copyright guidelines, including those relating to photocopying and electronic copies, please refer to the Association of Universities and Colleges of Canada (AUCC) fair dealing guidelines:

https://library.ucalgary.ca/sites/library.ucalgary.ca/files/Fair_dealing_policy_final_revised_March_2011-2.pdf

Recording Lectures:

Recording of lectures and labs is permitted for individual private study, only at the discretion of the instructor. Any other use of recording constitutes Academic Misconduct and may result in suspension or expulsion. Both the student and the instructor must sign the appropriate Release Form to facilitate recording lectures or labs.

Counselling and Student Development Centre:

The Counselling Centre focuses on three major areas; personal counselling, career development and academic success. Should you require assistance, please phone 220-5893 or review the website at:

<http://www.ucalgary.ca/counselling/>

Students' Union Representative:

Email: mgmtrep@ucalgary.ca

Class Schedule & Topics:

Important dates (e.g. Block Week, Lecture start dates, Reading Week, etc.) can be found at the following web site: <http://www.ucalgary.ca/pubs/calendar>

COURSE SCHEDULE (FNCE 753 Problems in Financial Management)		
DATE	TOPIC/ Required Readings	CASE ASSIGNMENT
January 9	<p>Introduction</p> <p>Review finance models</p> <p><i>“What’s is Worth? A General Manager’s Guide to Valuation”</i>, Timothy A. Luehrman, Harvard Business Review Reprint #97305</p> <p><i>“Birthdays and Investment Risk”</i>, John Mauldin, April 4, 2011 with permission of JohnMauldin@InvestorsInsight.com</p>	<p><i>Warren E. Buffet, 1995</i> <i>Darden Case #UVA – F - 1160</i></p>
January 16	Cost of Capital - 1	<p><i>Encana Corporation: The Cost of Capital</i> IVEY Case #9B07N002</p>
January 23	Cost of Capital – 2	<p><i>Noranda Mines</i> IVEY Case #9A84B012</p>
January 30	Cost of Capital in a Regulated Ratebase context	<p><i>The Consumers’ Gas Company</i>, IVEY Case #9A95B004</p>
February 6	Financing a Small Business	<p><i>“Druthers Forming Limited”</i>, Ivey Case #909N06</p>
February 13	Real Estate Investing - 1	<p><i>Timbercreek Investments Inc.</i> IVEY Case #9B02N022</p> <p>Provide question for paper due Feb 27</p>
February 20	<i>Reading week</i>	
February 27	<p><i>“Slapped by the Invisible Hand: The Panic of 2007”</i>, Gary Gorton, 2010</p> <p><i>“The Big Short: Inside the Doomsday Machine”</i>, Michael Lewis, 2010</p>	<p>Discuss assignment on today’s readings. The assignment will be provided on February 13</p>
March 6	Real Estate Investing - 2	<p><i>“H&R Reit – Financing the Bow”</i> IVEY Case #909B16</p>
March 13	<p>Executive Compensation</p> <p><i>“What You Need to Know About Stock Options”</i>, Brian J. Hall, Harvard Business Review March/April 2000, Reprint #R00205</p> <p><i>“The Coming Battle over Executive Pay”</i>, Karen Dillon, Harvard Business Review September 2009, Reprint #R0909L</p>	<p>Post-Crisis Compensation at Credit-Suisse (A), (B), (C) HBSP Case 9-311-005 HBSP Case 9-311-006 HBSP Case 9-311-007</p>

March 20	Investment analysis with imbedded financing #1	<i>Bougainville Power Station</i> HBSP Case # 9-275-060 This case is out of print, but is available on Blackboard by “one time permission to reproduce granted by Harvard Business Publishing, May 22, 2012”.
March 27	Investment analysis with imbedded financing #2	<i>Maskwa Resources: Financing with a Euro Bond</i> IVEY Case #9B05N023
April 3	Pension Plans <i>“The Ability to ‘Outperform the Market’: Logical Foundations Based on the theory of Rational Beliefs”</i> , Horace W. Brock, Rivista Internazionale di Scienze Sociali, 2007	<i>Ontario Teachers’ Pension Plan Board: The Asset Allocation Decision</i> IVEY Case #9A97N003 Introduce take-home case for final exam
April 10	Discuss “Hand-in” Case final exam	
<i>Final exams are scheduled by the Office of the Registrar</i>		
Please note: <i>Three weeks before the end of the semester there will be an online USRI (Universal Student Rating of Instructor) available for completion. By completing the evaluation you will assist us in improving our courses.</i>		