

CORPORATE FINANCIAL MANAGEMENT (2)

University of Amsterdam

Business School

Spring 2009

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Objective:

This course builds on Corporate Financial Management. The main question addressed is what should the corporation's financial managers, e.g., the Treasurer, CFO, do to change the firm's financial risk.

We will start by discussing how risk management can increase value, and then proceed to present the main type of financial risks that corporations may face. We will discuss how to measure them and provide an overview of the methods employed to hedge them. We will survey the most important financial instruments, such as futures, swaps and options, that the corporation can use to implement a better risk allocation.

By the end of the term the students will have a solid background in the classical instruments of risk management, and the use of Value-at-Risk and Cashflow-at-Risk to measure such risk.

Prerequisites:

- Corporate Financial Management
- Questions regarding course and exam registration should be addressed to the study administration ("Onderwijsadministratie"), office E 1.15.

Time and Venue:

Lecture: Wednesdays, 9.00-11.30, in E 0.04

Working Language:

The working language for all matters concerning this course is English.

Course Material:

- Textbook: Stulz, René, *Risk Management and Derivatives*, 1st Edition, South-Western/Thomson Learning (selected chapters)
- Reference textbook: Berk, Jonathan and Peter DeMarzo (BdM): *Corporate Finance*, Pearson International Edition (selected chapters)
- Selected research articles: distributed via Blackboard course site
- Case reader

Grading and Organization:

- The final grade for this course will be based on a written final exam, case studies, and presentation of a case solution.
- Your final grade will be the weighted average of your final exam grade (60%) and your grade for the cases (40%).
- In addition, you will receive a bonus of half a grade (+0.5) to your final grade if you present a case solution in class (see below).
- It is highly recommended that you prepare for each lecture by reading the specified material in advance.

Cases:

- You must hand in written case discussions for each of the three cases included in the case reader: US Semiconductor, Zappa and Orange County.
- *Note that all case material is exam relevant.*
- Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find sorting through this complexity and ambiguity to be frustrating. The case questions you will have to provide answers to may not have one and only one correct answer. However, there will generally be a set of insights and solutions that are better than others. And it is in working through the messy details to find these insights and solutions – both in your own preparation and in class discussion – that the concepts and principles introduced in the readings and lectures will come alive and be enriched for you.
- You should prepare case discussions in teams of **three** people. Do not forget to list the names (in alphabetical order) and student numbers of all your group members on the title page of your solution. Do not use nicknames.
- Please hand in a *printout* of your solution before the deadline (we cannot accept handwritten solutions). The deadline for each case is at 8:30 am on the day of the lecture where they will be presented. Please hand them in at the secretary's office mailbox on the E building, 4th floor. *Deadlines are strictly binding.* Do not e-mail solutions.
- For each case, one group will have the opportunity to present their solutions in class. A good presentation will be rewarded with a bonus of 0.5 to your final grade. You cannot give more than one case presentation. **Slots are allocated on a first-come first-serve basis** (send an e-mail to enrique.schroth@uva.nl, stating the preferable date of your presentation, and names (and student numbers) of the members of your group in alphabetical order).
- You may not discuss a case or consult notes on a case with students who have taken the class previously (for example, in a prior year). Any violation of this rule will result in exclusion from the course. We will regularly check case solutions for plagiarism.
- Should you have the feeling that one of your group members is free-riding on the efforts of the rest of the group, please feel free to contact the course coordinator, who will then discuss this matter with the person in question.

Final Exam:

- Exam schedules are online at: <http://www.feb.uva.nl/roosters>
- The exam will be closed book and closed notes. You will receive one page with all the necessary formulae for the exam.
- You will be allowed to use a pocket calculator (but you need to bring your own!).

Course Schedule

Week 1: February 4

Lecture: Capital Budgeting and Capital Structure

Readings:

BdM chapters 7, 14 and 15

Graham and Harvey (2000)

Week 2: February 11

Lecture: Risk Management and Value Creation

Readings:

Stulz, chapters 1,2 and 3

Stulz (1996)

Smithson and Simkins (2005)

Lewent and Kearney (1993)

In-class Case: Dell Corporation

Week 3: February 18

Lecture: Elementary Hedging with Futures and Forwards

Readings:

Stulz, chapters 5 and 6

In-class case: Metallgesellschaft

Week 4: February 25

Lecture: Interest rate risk, FRAs and Swaps

Readings:

Stulz, chapters 6 and 7

Week 5: March 4

Lecture: Risk management with Options

Readings:

Stulz, chapters 9, 12 and 13

Case 1: US Semiconductor

Week 6: March 11

Lecture: Measuring risk using VaR and CaR

Readings:

Stulz, chapters 4 and 8

Case 2: Zappa

Week 7: March 18

Lecture: Successes and failures from the uses of derivatives

Readings:

Stulz chapters 18, 19

Case 3: Orange County