

**UNIVERSITY OF WATERLOO**  
**School of Accounting and Finance**  
**AFM 371 - Managerial Finance 2**  
**Winter 2008**

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Instructor:	Ken Vetzal		
Office:	HH 290A (ext. 36518)		
Office hours:	Tuesdays & Thursdays 2:30 p.m. to 4:00 p.m. or by appointment		
Email:	<a href="mailto:kvetzal@uwaterloo.ca">kvetzal@uwaterloo.ca</a>		
Course web page:	<a href="http://arts.uwaterloo.ca/~kvetzal/AFM371">http://arts.uwaterloo.ca/~kvetzal/AFM371</a> (also accessible through UWACE)		
Lectures:	Section 01	TR 10:00 a.m. to 11:20 a.m.	PAS 1229
	Section 02	TR 11:30 a.m. to 12:50 p.m.	PAS 1229
Prerequisite:	AFM 271		
Antirequisite:	ACTSC 372, ACTSC 391/AFM 372, ECON 372		
Required text:	S. Ross, R. Westerfield, J. Jaffe, & G. Roberts, <i>Corporate Finance</i> (Fourth Canadian Edition), McGraw-Hill Ryerson, 2005		
Course evaluation:	Mid-term exam #1	Friday Feb. 8, from 4:30 p.m. to 6:00 p.m.	25%
	Mid-term exam #2	Friday Mar. 14, from 4:30 p.m. to 6:00 p.m.	25%
	Integrative case assignment	Due Monday Mar. 31	10%
	Final exam	To be scheduled by registrar's office	40%

**Important Notes:**

1. Assigned chapter readings will reinforce the material covered in class. The most difficult and important topics will be covered in class, but time constraints do not permit coverage of all topics at the same level of detail. However, you are responsible for all assigned chapter readings regardless of whether the material has been covered in class.
2. Occasionally, for various reasons, a student's performance on an examination does not reflect their knowledge. This will be taken into account using the following procedure. For each examination, a Z-score will be calculated for each student using the following formula:

$$\text{student's Z-score} = \frac{\text{student's examination grade} - \text{class average}}{\text{standard deviation of class grades}}$$

If the difference between a student's two lowest Z-scores is 1 or more, then less weight will be placed on the test with the weakest performance and more weight will be given to the better examinations. The amount of the adjustment will depend on the magnitude of the difference between the two lowest Z-scores. Students should not expect this type of adjustment to increase their overall grade in the course by more than about 5-10%.

3. The sole basis for being excused from one of the examinations is a medical certificate stating that you were unable to write the exam.
4. The course evaluation for any missed mid-terms will be made up on the final exam, *if there is a valid medical excuse*.
5. Requests for re-grading a mid-term exam must be made within one week after the exams have been given back and must be in writing. To have your exam considered for re-grading, the exam must be written in ink. *Note that the instructor reserves the right to re-grade the entire exam and raise or lower the grades originally assigned.*
6. The integrative case assignment involves a multi-subject case and is a joint component of the evaluation in AFM 371 and AFM 391 (Intermediate Financial Accounting 2). It will be a group-based written assignment. Further details will be announced in class.
7. Problem sets will be distributed which include questions from the text as well as other sources such as previous exams. These will not be graded but your success in the course will depend on your ability to do questions similar to those assigned.

8. A course forum will be set up under UWACE under the tab “Discussion Forum” for course-related questions and discussions. The course instructor will monitor this forum to provide suitable answers to queries.
9. The final exam will be comprehensive, but will emphasize material covered after the second mid-term. Effective May 2007, the School of Accounting and Finance (SAF) has changed its practice regarding missed final exams. The SAF previously offered a deferred exam sitting immediately following the end of the regular exam schedule for students who had a legitimate reason for missing a final exam in an AFM course. The deferred exam sitting has been discontinued. In the event that a student is unable to write a final exam during the regularly scheduled time, she/he will normally write the final exam when scheduled by the Registrar’s Office during the next offering of the course. This is still contingent on there being a satisfactory basis for the absence with appropriate supporting evidence. Those missing a final exam without a legitimate reason will receive a grade of zero on the final exam.
10. At the end of the course, all of the components counting towards students’ grades (i.e both mid-term examinations, the case assignment, and the final exam) will be adjusted so that the class average is the same on all of them.
11. Note on avoidance of academic offences: All students registered in the courses of the Faculty of Arts are expected to know what constitutes an academic offence, to avoid committing academic offences, and to take responsibility for their academic actions. When the commission of an offence is established, disciplinary penalties will be imposed in accord with Policy #71 (Student Academic Discipline). For information on categories of offences and types of penalties, students are directed to consult Policy #71 (<http://www.adm.uwaterloo.ca/infosec/Policies/policy71.htm>). If you need help in learning what constitutes an academic offence; how to avoid offences such as plagiarism, cheating, and double submission; how to follow appropriate rules with respect to “group work” and collaboration; or if you need clarification of aspects of the discipline policy, ask your TA and/or your course instructor for guidance. You may also consult the “Avoiding Academic Offences” website at [http://arts.uwaterloo.ca/arts/ugrad/academic\\_responsibility.html](http://arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html). Other resources regarding the discipline policy are your academic advisor and the Undergraduate Associate Dean. Students who believe that they have been wrongfully or unjustly penalized have the right to grieve; refer to Policy #70, Student Grievance, <http://www.adm.uwaterloo.ca/infosec/Policies/policy70.htm>.
12. Note for students with disabilities: The Office for Persons with Disabilities (OPD), located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.

### Course Description

This course is a continuation of AFM 271. The first part of the course deals with issues such as market efficiency, how a firm should finance its operations, and interactions between investment decisions and financing choices. The second part of the course is an introduction to the general area of derivative securities (options, forward contracts, futures contracts). Topics to be discussed include valuation and the use of derivatives for financial risk management. The final part of the course deals with various topics including payout policies, leasing, and mergers and acquisitions.

### Tentative Class Schedule

Date	Subject	Chapter Readings
Jan. 8, 10	Efficient capital markets	14
Jan. 15, 17	Long term financing	15, 20, 21
Jan. 22, 24, 29, 31	Capital structure	16, 17, 31
Feb. 5	Capital budgeting with leverage	18
Feb. 7	Review for Midterm #1	None
Feb. 12, 14, 26	Forwards, futures, and risk management	26
Feb. 28, Mar. 4, 6	Options: Characteristics and valuation	23.1-23.8
Mar. 11	Options and corporate finance	23.9-23.13, 24
Mar. 13	Review for Midterm #2	None
Mar. 18, 20	Payout policy	19
Mar. 25	Leasing	22
Mar. 27	Warrants and convertibles	25
Apr. 1	Mergers and acquisitions	30
Apr. 3	Course review	None