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Office Hours: Thursday 3:00 – 4:00 pm or by appointment, F688

GSI: Sara Holland, Holland@haas.berkeley.edu
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Office Hours: Tues. 12:00-1:30 pm

Required Texts: No required text. However, several of the required readings are from J. Berk and P. DeMarzo, Corporate Finance, Pearson, 2007, (“BD”). If you don’t already own the book, you may want to buy it.

Required readings should be read prior to class. Readings other than from BD are available on Study.net.


Course Description: MBA 231 develops the theory of optimal corporate financial decisions, including the evaluation of risky investment projects and real options, the choice of financial structure, and the optimal financial scope of the firm. Considerable time is devoted to the proper treatment of uncertainty, information, and their effects on valuation, incentives and optimal decisions. Applications of the theory are stressed. Lectures will focus on development of analytical tools for decision-making. Problems and cases will apply key analytical techniques.

Course Requirements: Final Exam (about 40 percent of grade)
Problem Sets (about 20 percent of grade)
Cases (about 25 percent of grade)
Class Participation (15%)
Approximate Lecture Schedule:

**Week 1:** *Objectives of Corporate Financial Decision-Making and Corporate Governance*

**Key topics:** Corporate objectives  
Separation of ownership, control  
Agency costs  
Corporate governance; Sarbanes-Oxley


*BD*, Ch. 29

The Economist (September 8, 2007): Review of R. Reich’s SuperCapitalism (Borzoi Books)


**Week 2:** *Financial and Strategic Planning: Valuation Under Certainty (review)*

**Key topics:** Sources of positive NPV  
Cash flows and projections  
Comparables  
EVA

Review MBA 203 material (*BD*, Chs. 2-9)


* Optional readings  
** Optional, requires advanced math
Week 3.4

Valuation Under Uncertainty: Risk-Adjusted Discounting and the Cost of Capital

Key Topics:  
- Asset, Debt, and Equity Betas
- Cost of Capital and WACC
- APV vs. WACC


*Review: BD, chs. 10-14, Ch. 18

Week 5:

Case: Marriott Corporation  (Harvard case 9-298-101 (rev. 1998))

Weeks 6, 7:

Valuation Under Uncertainty II: Contingent Claims, Real Options, and “Waiting to Invest”.

Key Topics:  
- Projects as real options
- Binomial pricing
- Flexibility
- The value to delay


BD, Ch.. 20, 22

Week 8:

Valuation Under Uncertainty III: The “Comparables” Approach

Key Topics:  
- Finding “comparable” firms
- Ratio analysis and extensions


Week 9:

Case: Arundel Corporation (Harvard case 9-292-140)
**Week 10:**  

**Financial Structure Decisions: An Overview**

**Key Topics:** Types and key features of securities  
Issuance of securities  
Bond ratings


*BD*, Ch. 23

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**Week 11**

**Debt vs. Equity: Optimal Leverage and Financial Restructuring**

**Key Topics:** Tax advantages  
Default, Bankruptcy, and Default costs  
The Tax tradeoff model of optimal leverage  
“Pecking order” and information  
Interactions of financing and real investment


*BD*, Chs. 15, 16

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**Week 12:**

**Case: Diageo plc**  
(Harvard case 9-201-033 (rev. 2003))
**Week 13, 14:**  
*The Optimal Scope of the Firm: Corporate Mergers, Spinoffs, and Structured Finance*

**Key Topics:** Mergers, Acquisitions, Spinoffs  
Structured Finance and Firm Scope


*BD*, Ch. 28

**Week 15(1):**  
*Risk Management*

**Key Topics:** Why risk management?  
Interest and currency hedging; swaps  
Price hedging and competition

Stulz, R., “Rethinking Risk Management,” *Journal of Applied Corporate Finance* 9, (Fall) 1996, 8-24


*BD*, Ch. 30

**Week 15(2):**  
*Venture Capital*

**Key Topics:** What’s unique about venture capital?  
IPOs and lockups  
Private equity