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Office Hours: Tuesday 2:30-4 p.m. or by appointment, F688

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Office Hours: Wed. 11-12:30

Required Texts: No required text. Required readings in this syllabus should be read prior to class. These will be available at Study.net.

Background Texts (optional):  
J. Berk and P. DeMarzo, Corporate Finance, Pearson, 2007, ("BD") or  

A more advanced text (complete but quite arcane) is  

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 25 percent of grade)  
Cases (about 25 percent of grade)  
Class Participation: Will count at margin (10%)
Approximate Lecture Schedule:

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

**Key topics:** Corporate objectives
Separation of ownership, control
Corporate governance; Sarbanes Oxley
International differences


**BD**, Ch. 29

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

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

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


* Optional readings
** Optional, requires advanced math
Week 3  
Valuation Under Uncertainty: Risk-Adjusted Discounting and the CAPM

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


Review: BD, chs. 10-12, Ch. 18

Week 4:  
Case: Marriott Corporation  (Harvard case 9-298-101 (rev. 1998))

Weeks 5, 6:  
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

Notes on binomial pricing (to be distributed)


BD, Ch. 20, 22

Week 7:  
Case: Arundel Corporation (Harvard case 9-292-140 (1992))

Week 8:  
Valuation Under Uncertainty III: The “Comparables” Approach

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

Week 9: Financial Structure Decisions: An Overview

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


BD, Ch. 23

Weeks 10, 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

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


**"Corporate Risk Management Survey," The Economist, February 10, 1996, pp. 3-22.**


*BD, Ch. 30*

Week 15(2): Venture Capital

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