COURSE OVERVIEW

This course focuses on the financial-economic analysis of corporate investment (i.e., capital budgeting) decisions. One of the most important decisions a firm makes is how to best allocate its capital resources. This course will help students understand the tools and framework needed to analyze and communicate the value impact of proposed capital expenditures and strategic decisions. This course is especially useful to anyone preparing for a career role with input to business investment decisions, including marketing, operational, and corporate financial managers. Both conceptual understanding and practical implementations through case studies will be emphasized.

COURSE MATERIALS

Lecture notes: This is the primary course material. I will distribute copies of lecture notes in class and post them on Blackboard after each class.

- This is an excellent reference in corporate finance. You can find relevant chapters of the book in the course outline. Copies of the book are also available on the course reserve at Johnson Management Library.

Cases: We will be working on six cases available through the following Harvard Business School Press (HBSP) web link: [https://cb.hbsp.harvard.edu/cbmp/access/24637266](https://cb.hbsp.harvard.edu/cbmp/access/24637266). You will need to register for a HBSP student account in order to access the materials and purchase the cases here: [https://cb.hbsp.harvard.edu/cbmp/register/2/Student/0/0/18800255](https://cb.hbsp.harvard.edu/cbmp/register/2/Student/0/0/18800255). (Note: These links are also available on Blackboard under ‘Case Assignments’). Please contact the Johnson Faculty Support Office (GM-Staff-FacultySupport@groups.cornell.edu) if you have trouble accessing the cases online.

Additional readings: I will post a number of suggested readings on Blackboard, as listed in course outline. Please feel free to ask me if you would like to have additional readings on particular topics. I will point you toward the right direction.

**PREREQUISITES**

- Introductory Finance
- Introductory Financial Accounting
- Introductory Statistics
- A basic knowledge of Excel or other spreadsheet packages

I will assume that you have a working knowledge of finance, financial accounting, and statistics. You will also need a working knowledge of a spreadsheet package, especially Excel, to work on class assignments and the final exam.

**GRADING**

The Johnson School faculty has adopted a suggested grade average of 3.5 for elective courses. This course will follow that guideline. Requirements for credit in NBA 6060 include case solutions, in-class problem sets, and a final case exam. I will also take individual class participation into account in final grades:

- Case solutions: 10% each \( \times 5 = 50\% \) (group-based)
- Final case exam: 36\% (individual-based)
- Class participation: 10\%
- In-class problem sets: 1\% \( \times 4 = 4\% \)

**Case Solutions**

I will assign six cases which require comprehensive understanding of the materials we learn in the previous classes. They will include questions pertaining to the cases that we will discuss in class as well as some analytical problems. You may do the case solutions in groups of up to 4 people. You are required to submit your case solution at the beginning of class and be prepared to discuss your solution in class. Your lowest case score will be dropped, and each of the top five case solutions constitutes 10% towards the final grade (i.e., 50% in total).

**Final Case Exam**
The final exam will be a take-home case analysis that will involve spreadsheet modelling and analysis of the investment decision. The case will be distributed during the last week of class and will be due by 11:59pm on Thursday, March 20 on Blackboard. The final case is an individual assignment. The case will require comprehensive understanding of project evaluation approaches covered in the entire course.

Class Participation
Class participation is an important component of this course. It will significantly help your and your fellow students’ understanding of the material. Of course, quality of comments, rather than quantity, will be more heavily weighted. The best way to maximize your class participation grade is by volunteering insights or questions that are helpful to class discussion. I may also cold call on students, but class participation is ultimately your responsibility.

In-class Problem Sets
To help your understanding of concepts and techniques, we will solve five short in-class “problem sets” individually on days in which cases are not discussed. You will need to turn in the problem sets which will be graded on a pass/fail basis. A “pass” will be awarded if the response indicates a reasonable grasp of the relevant material, and a fail awarded otherwise, or if you are absent for the problem set. After working on the problems individually, we will solve/discuss them as a class. Your lowest in-class problem set score will be dropped. And each of the top four problem sets constitutes 1% towards the final grade (i.e., 4% in total).

CLASS POLICIES

- Promptness. To minimize disruptions, please do not come late or leave early, which disturbs the flow of the class and the concentration of your fellow students.
- Sections: Please make every effort to come to your assigned section. Only if you have a legitimate conflict or emergency (e.g., family or health-related emergency), you may attend the other section. But even in those cases, you should email me about your circumstances ahead of time to the extent possible.
- Name cards: Please use name cards at each class. If you forget to bring your name card to class, please create a temporary one to use that day.
- Laptops and smartphones: Johnson has a strict no-laptop policy. To encourage an active and engaging environment, please do not use cellphones, smartphones, laptops, etc. in class, unless it is absolutely necessary for class discussion (e.g., Excel spreadsheet modeling).
- Grades: As with all grades at Cornell, I am not allowed to release your grades other than in a secure manner. For example, I cannot give out grades to students via email.
- Re-grading: If you believe an error has been made in grading your exams or project, you may request a re-grade in the following way:
  i. Write a brief note to me (by email) explaining why you think there is an error. I may ask you to re-submit the assignment.
  ii. All re-grade requests must occur within seven (7) calendar days of the day graded material is returned to the class or the final course grade is posted.
  iii. I reserve the right to re-grade the entire contents of any submitted work. Your grade may go up or down.

ACADEMIC INTEGRITY

You may not use the notes or materials (including conversations) from other students who may have prepared the assigned materials in this or any other class. Use of such sources is considered a violation of
the Cornell University Code of Academic Integrity. You may also not distribute exams, problem sets, or final projects used in this class to any other student who might take the course in the future. If there is any doubt regarding how the code of academic integrity applies to any aspect of this course, please contact me.

1 http://cuinfo.cornell.edu/Academic/AIC.html
# COURSE OUTLINE, READINGS, AND ASSIGNMENTS

(The outline may change slightly as the course progresses. Please check course website for updates.)

<table>
<thead>
<tr>
<th>Class # (Date)</th>
<th>Topics</th>
<th>Assignments</th>
<th>Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (01/23, Thur)</td>
<td>Introduction to the course</td>
<td></td>
<td>HBR article, “What’s It Worth?,” 1997</td>
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<tr>
<td>2 (01/28, Tue)</td>
<td>Discounted Cash flows (DCF)</td>
<td>In-class problems</td>
<td>RWJ: 4 (skim), 5, 6</td>
</tr>
<tr>
<td>3 (01/30, Thur)</td>
<td>Building a spreadsheet model: Ocean Carriers case</td>
<td>Case #1 (due at beginning of class)</td>
<td></td>
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<tr>
<td>4 (02/04, Tue)</td>
<td>Alternative decision criteria: IRR, Payback Period, Profitability index</td>
<td>In-class problems</td>
<td>RWJ: 5</td>
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<tr>
<td>5 (02/06, Thur)</td>
<td>Case: Whirlpool Europe</td>
<td>Case #2 (due at beginning of class)</td>
<td></td>
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<tr>
<td>6 (02/11, Tue)</td>
<td>Project cost of capital</td>
<td>In-class problems</td>
<td>RWJ: 11 (background on CAPM – skim), 13</td>
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<tr>
<td>7 (02/13, Thr)</td>
<td>Case: Marriott Cost of Capital</td>
<td>Case #3 (due at beginning of class)</td>
<td></td>
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<tr>
<td>8 (02/20, Thur)</td>
<td>Lease vs. Buy decisions</td>
<td>In-class problems</td>
<td>RWJ: 21</td>
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<tr>
<td>9 (02/25, Tue)</td>
<td>Case: Amtrak Acela Financing</td>
<td>Case #4 (due at beginning of class)</td>
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<td>10 (02/27, Thur)</td>
<td>Monte Carlo simulation</td>
<td></td>
<td>RWJ: 7.2</td>
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<tr>
<td>11 (03/04, Tue)</td>
<td>Case: Spiegel Online</td>
<td>Case #5 (due at beginning of class)</td>
<td></td>
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<tr>
<td>12 (03/06, Thur)</td>
<td>Real options</td>
<td>In-class problems</td>
<td>RWJ: 22 (background on options - skim), 7.3-7.4, 23 (real options) HBR article CFO Magazine</td>
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</tbody>
</table>

FEBRUARY BREAK
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 (03/11, Tue)</td>
<td>Real options</td>
<td>RWJ: 7.3-7.4, 23 (real options)</td>
</tr>
<tr>
<td>14 (03/13, Thur)</td>
<td>Case: Arundel Partners</td>
<td>Case #6 (due at beginning of class)</td>
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</tbody>
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