COLORADO STATE UNIVERSITY GLOBAL

FIN530: CORPORATE FINANCE

Credit Hours: 3

Contact Hours: This is a 3-credit course, offered in accelerated format. This means that 16 weeks of material is covered in 8 weeks. The exact number of hours per week that you can expect to spend on each course will vary based upon the weekly coursework, as well as your study style and preferences. You should plan to spend 14-20 hours per week in each course reading material, interacting on the discussion boards, writing papers, completing projects, and doing research.

Faculty Information: Faculty contact information and office hours can be found on the faculty profile page.

COURSE DESCRIPTION AND OUTCOMES

Course Description:

This course builds on concepts covered in FIN500 and provides a comprehensive array of skills to manage the finance function of a modern organization. It provides the necessary background both to understand and to apply financial-management techniques in order to be successful in positions of business management. Topics include capital structure and dividend theory, valuation models, portfolio theory, advanced cash flow analysis, and weighted and marginal cost of capital within a capital rationing model.

Course Overview:

In this course, you will explore the most common financial management operations of a corporation through the study of financial theories and applications. Topics include financial statement analysis, capital structure and dividend theory, valuation models, portfolio theory, stock options, and capital budgeting. This course strives to present a balance between quantitative methods and the decision making required for success in corporate finance.

Financial theories, focused on the valuation of securities such as stocks, bonds, and stock options, are presented. Through the comprehensive study of capital budgeting, you learn to compute and analyze expected cash flows and determine required rates of return through the study of the weighted average cost of capital. Ultimately, these decisions are made through the analysis of quantitative results.

The goal of financial management is to maximize firm value. While many of financial management’s decisions are intuitive in nature, it is important to understand the basic financial theories that support the decisions that increase a firm’s value. Thus, while we emphasize the rigorous quantitative applications

of financial theory, the judgments necessary for successful financial management are equally examined.

Course Learning Outcomes:

1. Analyze the managerial aspects of finance and financial decision-making to maximize shareholder (owner) wealth, placing emphasis on the continuous process of deciding the best uses and sources of funds and the role of the financial manager in contributing to the overall planning and control activities of the business enterprise.
2. Measure risk and incorporate results in determining the value of financial assets and assessing capital investment projects.
3. Analyze and apply the concepts underlying valuation models for bonds and preferred and common stocks, and evaluate current market prices of these assets considering fundamental valuation models.
4. Evaluate investment alternatives for capital expenditures, and explain how the cost of capital, capital structure, and dividend policy influence the selection of capital investments.
5. Evaluate ethical issues corporations and their employees confront in their daily operations and managerial decisions and analyze how unethical or dishonest behavior of financial managers can negatively affect the firm's market valuation and stakeholders.
6. Integrate Time Value of Money concepts covered in the pre-requisite Financial Management course (FIN500) and apply them to advance finance case studies.

PARTICIPATION & ATTENDANCE

Prompt and consistent attendance in your online courses is essential for your success at CSU-Global Campus. Failure to verify your attendance within the first 7 days of this course may result in your withdrawal. If for some reason you would like to drop a course, please contact your advisor.

Online classes have deadlines, assignments, and participation requirements just like on-campus classes. Budget your time carefully and keep an open line of communication with your instructor. If you are having technical problems, problems with your assignments, or other problems that are impeding your progress, let your instructor know as soon as possible.

COURSE MATERIALS

Required:

Brigham, E. F. & Ehrhardt, M. C. (2017). *Financial management: Theory and practice* (15th ed.). Cincinnati, OH: South-Western College Pub. ISBN-13: 9781305632295.

***NOTE:** All non-textbook required readings and materials necessary to complete assignments, discussions, and/or supplemental or required exercises are provided within the course itself. Please read through each course module carefully.*

COURSE SCHEDULE

Due Dates

The Academic Week at CSU-Global begins on Monday and ends the following Sunday.

- **Discussion Boards:** The original post must be completed by Thursday at 11:59 p.m. MT and Peer Responses posted by Sunday 11:59 p.m. MT. Late posts may not be awarded points.
- **Critical Thinking:** Assignments are due Sunday at 11:59 p.m. MT.
- **Live Classroom:** Although participation is not required, Live Classroom sessions are held during Week 3 and Weeks 6. There are two total sessions.

WEEKLY READING AND ASSIGNMENT DETAILS

Module 1

Readings

- Chapters 1, 2, & 3 in *Financial Management: Theory and Practice*

Discussion (25 points)

Critical Thinking: (75 points)

Option #1: Use the **Template for Option 1** (linked under Module 1) to answer the following questions:

1. Using the financial statements in Section 1, calculate net operating working capital, total net operating capital, net operating profit after taxes, free cash flow, and return on invested capital for the most recent year.
2. Assume that there were 15 million shares outstanding at the end of the year, the year-end closing stock price was $65 per share, and the after-tax cost of capital was 8%. Calculate EVA and MVA for the most recent year.
3. Why are these ratios important? Who are three users of these ratios and what are they used for?

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Option #2: Read the following article:

Sehra, A., Cohen, R., & Arulchandran, V. (2018). On cryptocurrencies, digital assets and private money. *Journal of Payments Strategy & Systems*, *12*(1), 13-32.

Use the **Template for Option 2,** which can be found in Module 1, to answer the following questions:

Discuss how cryptocurrencies and digital assets have affected the US and global financial markets. Also, discuss how financial technology (FinTech) has either benefited or hurt corporate cash flows.

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Module 2

Readings

- Chapter 5 in *Financial Management: Theory and Practice*
- Kim, J.-M., & Jung, H. (2018). Dependence structure between oil prices, exchange rates, and interest rates. *The Energy Journal, 39*(2), 259-280.
- Willis, J. L., & Guangye, C. (2015). Has the U.S. economy become less interest rate sensitive? *Economic Review (01612387)*, *100*(2), 5-36.

Discussion (25 points)

Critical Thinking: (95 points)

Option #1: Sam Strother and Shawna Tibbs are vice presidents of Mutual of Seattle Insurance Company and co-directors of the company's pension fund management division. An important new client, the North-Western Municipal Alliance, has requested that Mutual of Seattle present an investment seminar to the mayors of the represented cities, and Strother and Tibbs, who will make the actual presentation, have asked you to help them by answering the following questions.

1. What are the key features of a bond?
2. What are call provisions and sinking fund provisions? Do these provisions make bonds more or less risky?
3. How does one determine the value of any asset whose value is based on expected future cash flows?
4. How is the value of a bond determined? What is the value of a 10-year, $1,000 par value bond with a 10% annual coupon if its required rate of return is 10%?
5. What would be the value of the bond described in Part d if, just after it had been issued, the expected inflation rate rose by 3 percentage points, causing investors to require a 13% return? Would we now have a discount or a premium bond?

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Option #2: A 20-year, 8% semiannual coupon bond with a par value of $1,000 may be called in 5 years at a call price of $1,040. The bond sells for $1,100. (Assume that the bond has just been issued.)

Basic Input Data:		
Years to maturity:		**20**
Periods per year:		**2**
Periods to maturity:		

Coupon rate:		**8%**
Par value:		**$1,**
Periodic payment:		
Current price		**$1,**
Call price:		**$1,**
Years till callable:		**5**
Periods till callable:		

1. What is the bond's yield to maturity?
2. What is the bond's current yield?
3. What is the bond's capital gain or loss yield?
4. What is the bond's yield to call?
5. How would the price of the bond be affected by changing the going market interest rate? (Hint: Conduct a sensitivity analysis of price to changes in the going market interest rate for the bond. Assume that the bond will be called if and only if the going rate of interest falls below the coupon rate. That is an oversimplification, but assume it anyway for purposes of this problem.)

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Module 3

Readings

- Chapter 7 in *Financial Management: Theory and Practice*
- Bansal, V. (2018). A statistical inquiry into the correlation of income and balance sheet metrics on equity valuation. *Journal of Accounting and Finance*, *18*(5), 170-174.
- Chiang, T., & Zhang, Y. (2018). An empirical investigation of risk-return relations in Chinese equity markets: Evidence from aggregate and sectoral data. *International Journal of Financial Studies*, *6*(2), 1-22. doi:10.3390/ijfs6020035.
- Schreder, M. (2018). Idiosyncratic information and the cost of equity capital: A meta-analytic review of the literature. *Journal of Accounting Literature, 41*, 142-172.
- Zhang, X. F. (2015). Accounting information and equity valuation: Theory, evidence, and applications. *Accounting Review, 90*(3), 4.

Discussion (25 points)

Live Classroom (0 points)

Critical Thinking: (90 points)

Option #1: Selected data for the DB Corporation are shown in the **Template for Option 1.** Use the data to answer the following questions.

1. Calculate the estimated horizon value (i.e., the value of operations at the end of the forecast period immediately after the Year-4 free cash flow). Assume growth becomes constant after Year 3.
2. Calculate the present value of the horizon value, the present value of the free cash flows, and the estimated Year-0 value of operations.
3. Calculate the estimated Year-0 price per share of common equity. What do these values tell us about the organization's values in the future?

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Option #2: TD Corporation has a 15% weighted average cost of capital (WACC). Its most recent sales were $980 million and its total net operating capital is $870 million. The following shows estimates of the forecasted growth rates, operating profitability ratios, and capital requirement ratios for the next three years. These ratios are expected to remain constant after the third year. Use this information to answer the following questions.

Estimated Data for Traver-Dunlap Corporation:

		Forecast		
		1	**2**	**3**
Annual sales growth		20%	6%	6%
Operating profitability		12%	10%	10%
Capital requirement (OpCap/Sales)		80%	80%	80%
Tax rate		35%	35%	35%

Answer the following questions:

1. Use the data to forecast sales, net operating profit after taxes (NOPAT), total net operating capital (OpCap), free cash flow (FCF), growth rate in FCF, and return on invested capital (ROIC)

for the next three years. What is the FCF growth rate for Year 3 and how does it compare with the growth rate in sales? What is the ROIC for Year 3 and how does it compare with the 15% WACC?

2. What is the value of operations at Year 3, Vop,3? What is the current value of operations, Vop,0? How does the value of operations at Year 0 compare with the total net operating capital at Year 3, and what might explain this relationship?
3. Suppose the growth rates for Years 2, 3, and thereafter can be increased to 7%. What is the new value of operations? Did it go up or down? Why did it change in this manner?
4. Return the growth rates to the original values. Now suppose that the capital requirement ratio can be decreased to 60% for all three years and thereafter. What is the new value of operations? Did it go up or down relative to the original base case? Why did it change in this manner?
5. Leave the capital requirement ratios at 60% for all three years and thereafter, but increase the sales growth rates for Years 2, 3, and thereafter to 7%. What is the new value of operations? Did it go up or down relative to the other scenarios? Why did it change in this manner?

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Module 4

Readings

- Chapter 25 in *Financial Management: Theory and Practice*
- Arici, G., Dalai, M., Leonardi, R., & Spalvieri, A. (2019). A communication theoretic interpretation of Modern Portfolio Theory including short sales, leverage and transaction costs. *Journal of Risk and Financial Management, 12*(1), 1-11. Retrieved from https://www.mdpi.com/1911-8074/12/1/4/htm
- Hawley, J., & Lukomnik, J. (2017). The long and short of it: Are we asking the right questions: Modern portfolio theory and time horizons. *Seattle UL Rev.*, *41*(2), 449-474. Retrieved from http://digitalcommons.law.seattleu.edu/sulr/.
- Jacob Leal, S. (2015). Fundamentalists, chartists, and asset pricing anomalies. *Quantitative Finance, 15*(11), 14.
- Matthies, B., Jacobsen, J., Knoke, T., Paul, C., & Valsta, L. (2019). Utilising portfolio theory in environmental research - New perspectives and considerations. *Journal of Environmental Management, 231*, 926-939.
- Solares, E., Coello Coello, C. A., Fernandez, E., & Navarro, J. (2019). Handling uncertainty through confidence intervals in portfolio optimization. *Swarm and Evolutionary Computation, 44*, 774-787.

Discussion (25 points)

Critical Thinking: (95 points)

Option #1: Answer the following questions:

1. Security A has an expected rate of return of 6%, a standard deviation of returns of 30%, a correlation coefficient with the market of 0.25, and a beta coefficient of 0.5. Security B has an

expected return of 11%, a standard deviation of returns of 10%, a correlation with the market of 0.75, and a beta coefficient of 0.5. Which security is riskier? Why?

2. The standard deviation of stock returns for Stock A is 40%. The standard deviation of the market return is 20%. If the correlation between Stock A and the market is 0.70, then what is Stock A's beta?
3. An analyst has modeled the stock of Crisp Trucking using a two-factor APT model. The risk- free rate is 6%, the expected return on the first factor r1 is 12%, and the expected return on the second factor r2 is 8%. If bi1 0 7 and bi2 0 9, what is Crisp's required return?
4. Stock A has an expected return of 12% and a standard deviation of 40%. Stock B has an expected return of 18% and a standard deviation of 60%. The correlation coefficient between Stocks A and B is 0.2. What are the expected return and standard deviation of a portfolio invested 30% in Stock A and 70% in Stock B?

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Option #2: Compute the beta for a stock that is included in the Dow Jones Industrial Average using regression analysis in Excel. Here are the instructions:

https://www3.nd.edu/~scorwin/fin70610/Excel%20Beta%20Example.xls

Here is another reference for you to use to help complete this assignment: How Can I Create a Linear Regression in Excel?

Answer the following questions:

1. Find the beta reported at a financial website such as Yahoo Finance or Google Finance.
2. Describe how this beta compares with the beta you have calculated.
3. Discuss the R-squared value of your beta and the statistical predictive value of beta.
4. Describe what the empirical financial research indicates regarding the accuracy of beta as a predictor of risk.
5. Include an appendix containing all calculations.

Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Module 5

Readings

- Chapter 10 in *Financial Management: Theory and Practice*

- Angelo, B., Ayres, D., & Stanfield, J. (2018). Power from the ground up: Using data analytics in capital budgeting. *Journal of Accounting Education*, *42*, 27–39.

Discussion (25 points)

Critical Thinking: (95 points)

Option #1: GS Fishing is considering two mutually exclusive investments. The projects' expected net cash flows are as follows:

	Expected Net Cash Flows	
Time	**Project A**	**Project B**
0	**($375)**	**($575)**
1	**($300)**	**$190**
2	**($200)**	**$190**
3	**($100)**	**$190**
4	**$600**	**$190**
5	**$600**	**$190**
6	**$926**	**$190**
7	**($200)**	**$0**

Answer the following questions:

1. If each project's cost of capital is 12%, which project should be selected? If the cost of capital is 18%, what project is the proper choice?
2. Construct NPV profiles for Projects A and B.
3. What is each project's IRR?
4. What is the crossover rate, and what is its significance?

Include an excel file for support with formulas showing your work.

Also for the narrative portion of option 1, your paper should meet the following requirements:

- Be approximately 2 pages in length, not including the cover page and reference page.

Option #2: DD Industries must choose between a gas-powered and an electric-powered forklift truck for moving materials in its factory. Because both forklifts perform the same function, the firm will choose only one. (They are mutually exclusive investments.) The electric-powered truck will cost more, but it will be less expensive to operate; it will cost $22,000, whereas the gas- powered truck will cost $17,500. The cost of capital that applies to both investments is 12%. The life for both types of truck is estimated to be 6 years, during which time the net cash flows for the electric-powered truck will be $6,290 per year and those for the gas-powered truck will be $5,000 per year. Annual net cash flows include depreciation expenses. Calculate the NPV and IRR for each type of truck, and decide which to recommend. Show your work in an excel file.

Also include your paper as a second file and should meet the following requirements:

- Your paper should be 4-6 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least four scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Portfolio Milestone (10 points)

Read the information on the Portfolio Project in the Module 8 folder. Be sure to carefully study the project requirements. Requirement 1 is due this week.

Complete Requirement 1 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 6. Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project.

Module 6

Readings

- Chapter 15 in *Financial Management: Theory and Practice*
- Armstrong, V. S. (2015). Using real option analysis to improve capital budgeting decisions when project cash flows are subject to capacity constraints. *Academy of Accounting & Financial Studies Journal, 19*(2), 8.
- Johnstone, D. (2015). When are investment projects in the same risk class? *Accounting & Finance*, *57*(2), 499–510.
- Johnstone, D. (2016). The effect of information on uncertainty and the cost of capital. *Contemporary Accounting Research*, *33*(2), 752-774.

Discussion (25 points)

Live Classroom (0 points)

Portfolio Milestone (10 points)

Read the information on the Portfolio Project in the Module 8 folder. Be sure to carefully study the project requirements. Requirement 2 is due this week.

Complete Requirement 2 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. Additionally, work received later than Week 7 of the course will not receive feedback prior to the final grading of the Portfolio Project.

Module 7

Readings

- Chapter 26 in *Financial Management: Theory and Practice*
- Israelov, R., & Nielsen, L. N. (2014). Covered call strategies: One fact and eight myths. *Financial Analysts Journal, 70*(6), 9.
- Mitra, S. (2017). Efficient option risk measurement with reduced model risk. *Insurance Mathematics and Economics, 72*, 163-174.

Discussion (25 points)

Module 8

Readings

- Chapter 14 in *Financial Management: Theory and Practice*
- Caliskan, D., & Doukas, J. A. (2015). CEO risk preferences and dividend policy decisions. *Journal of Corporate Finance, 35*, 25.
- Goh, B. W., Lim, C. Y., Lobo, G. J., & Tong, Y. H. (2017). Conditional conservatism and debt versus equity financing. *Contemporary Accounting Research*, *34*, 216-251.
- Kiraci, K., & Aydin, N. (2018). Factors that determine the capital structure: An empirical study on low-cost airlines. *Scientific Annals of Economics and Business*, *65*, 227-246.
- Park, K., & Jang, S. (Shawn). (2018). Pecking order puzzle: Restaurant firms' unique financing behaviors. *International Journal of Hospitality Management*, *70*, 99–109.

Discussion (25 points)

Portfolio Project (330 points)

Option #1: IW Technologies (IWT) is a 6-year old company founded by Harold Jacksen and Donald Smith to exploit metamaterial plasmonic technology to develop and manufacture miniature microwave frequency directional transmitters and receivers for use in mobile Internet and communications applications. The technology, although highly-advanced, is relatively inexpensive to implement and their patented manufacturing techniques require little capital in comparison to many electronics fabrication ventures. Because of the low capital requirement, J&S have been able to avoid issuing new stock and thus own all of the shares. Because of the explosion in demand for its mobile Internet applications, IWT must now access outside equity capital to fund its growth and J&S have decided to take the company public. Until now, J&S have paid themselves reasonable salaries but routinely reinvested all after-tax earnings in the firm, so dividend policy has not been an issue. However, before talking with potential outside investors, they must decide on a dividend policy.

Your new boss at the consulting firm FLT and Associates, which has been retained to help IWT prepare for its public offering, has asked you to make a presentation to Jackson and Smithfield in which you review the theory of dividend policy and discuss the following issues.

1. Due in Module 5
    a. What is meant by the term “distribution policy”? How have dividend payouts versus stock repurchases changed over time?
    b. The terms "irrelevance," "dividend preference, or bird-in-the-hand," and "tax effect" have been used to describe three major theories regarding the way dividend payouts affect a firm's value. Explain what these terms mean, and briefly describe each theory.
2. Submit the spreadsheet by Sunday of Week 5 so the instructor can review your work and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 5. Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project.
3. Due in Module 6
    a. What do the three theories indicate regarding the actions management should take with respect to dividend payouts?
    b. What results have empirical studies of the dividend theories produced? How does all this affect what we can tell managers about dividend payouts?
4. Complete Requirement 2 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 6. Additionally, work received later than Week 7 of the course will not receive feedback prior to the final grading of the Portfolio Project.
5. Discuss (1) the clientele effect, (2) the information content, or signaling, hypothesis, and (3) their effects on dividend policy.
6. Assume that IWT has a $112.5 million capital budget planned for the coming year. You have determined its present capital structure (80% equity and 20% debt) is optimal, and its net income is forecasted at $140 million. Use the residual distribution model approach to determine IWT’s total dollar distribution. Assume for now that the distribution is in the form of a dividend. IWT has 100 million shares. What is the forecasted dividend payout ratio? What is the forecasted dividend per share?
7. What would happen to the payout ratio and DPS if net income were forecasted to decrease to $90 million?
8. What would happen to the payout ratio and DPS if net income were forecasted to increase to $160 million?
9. In general terms, how would a change in investment opportunities affect the payout ratio under the residual payment policy?
10. What are the advantages and disadvantages of the residual policy? (Hint: Don't neglect signaling and clientele effects.
11. Describe the procedures a company follows when it makes a distribution through dividend payments.
12. What is a stock repurchase? Describe the procedures a company follows when it makes a distribution through a stock repurchase.
13. What are stock repurchases? Discuss the advantages and disadvantages of a firm's repurchasing its own shares.

14. Suppose IWT has decided to distribute $50 million, which it presently is holding in very liquid short-term investments. IWT's value of operations is estimated to be about $1,937.5 million. IWT has $387.5 million in debt (it has no preferred stock). As mentioned previously, IWT has 100 million shares of stock outstanding.
15. Assume that IWT has not yet made the distribution. What is IWT's intrinsic value of equity? What is its intrinsic per share stock price?
16. Now suppose that IWT has just made the $50 million distribution in the form of dividends. What is IWT's intrinsic value of equity? What is its intrinsic per share stock price?
17. Suppose instead that IWT has just made the $50 million distribution in the form of a stock repurchase. Now what is IWT's intrinsic value of equity? How many shares did IWT repurchase? How many shares remained outstanding after the repurchase? What is its intrinsic per share stock price after the repurchase?

Your paper should be 8-10 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least ten scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Option #2: Assume you have just been hired as a business manager of PPPZ Pizza, a regional pizza restaurant chain. The company's EBIT was $50 million last year and is not expected to grow. The firm is currently financed with all equity and it has 10 million shares outstanding. When you took your corporate finance course, your instructor stated that most firms' owners would be financially better off if the firms used some debt. When you suggested this to your new boss, he encouraged you to pursue the idea. As a first step, assume that you obtained from the firm's investment banker the following estimated costs of debt for the firm at different capital structures:

Percent Financed		
with debt, w_d		**r_d**
0%		**0.0%**
20%		**8.0%**
30%		**8.5%**
40%		**10.0%**
50%		**12.0%**

If the company were to recapitalize, debt would be issued, and the funds received would be used to repurchase stock. PPPZ Palace is in the 40% state-plus-federal tax bracket, the risk-free rate is 6 percent, and the market risk premium is 6 percent.

1. Due in Module 5
    a. Provide a brief overview of capital structure effects. Be sure to identify the ways in which capital structure can affect the weighted average cost of capital and free cash flows.
    b. What is business risk? What factors influence a firm's business risk?
    c. What is operating leverage, and how does it affect a firm's business risk?
    d. Show the operating breakeven point if a company has fixed costs of $200, a sales price of $15, and variables costs of $10.
2. Submit the spreadsheet by Sunday of Week 5 so the instructor can review your work and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 5. Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project. Due in Module 6
    a. Now, to develop an example which can be presented to PPPZ Palace's management to illustrate the effects of financial leverage, consider two hypothetical firms: Firm U, which uses no debt financing, and Firm L, which uses $10,000 of 12 percent debt. Both firms have $20,000 in assets, a 40 percent tax rate, and an expected EBIT of $3,000.
    b. Construct partial income statements, which start with EBIT, for the two firms.
    c. Now calculate ROE for both firms.
3. Complete Requirement 2 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 6. Additionally, work received later than Week 7 of the course will not receive feedback prior to the final grading of the Portfolio Project.
4. What does this example illustrate about the impact of financial leverage on ROE?
5. Explain the difference between financial risk and business risk.
6. What happens to ROE for Firm U and Firm L if EBIT falls to $2,000? What does this imply about the impact of leverage on risk and return?
7. What does capital structure theory attempt to do? What lessons can be learned from capital structure theory? Be sure to address the MM models.
8. What does the empirical evidence say about capital structure theory? What are the implications for managers?
9. With the above points in mind, now consider the optimal capital structure for PPPZ Palace.

Your paper should be 8-10 pages in length and conform to *CSU-Global Guide to Writing and APA*. Include at least ten scholarly references in addition to the course textbook. The CSU-Global Library is a good place to find these references.

Course Policies

Grading Scale	
A	95.0 – 100
A-	90.0 – 94.9
B+	86.7 – 89.9
B	83.3 – 86.6
B-	80.0 – 83.2
C+	75.0 – 79.9
C	70.0 – 74.9
D	60.0 – 69.9
F	59.9 or below

Course Grading

20% Discussion Participation
45% Critical Thinking Assignments
35% Final Portfolio Project
0% Live Classroom

In-Classroom Policies

For information on late work and incomplete grade policies, please refer to our **In-Classroom Student Policies and Guidelines** or the Academic Catalog for comprehensive documentation of CSU-Global institutional policies.

Academic Integrity
Students must assume responsibility for maintaining honesty in all work submitted for credit and in any other work designated by the instructor of the course. Academic dishonesty includes cheating, fabrication, facilitating academic dishonesty, plagiarism, reusing /re-purposing your own work (see *CSU-Global Guide to Writing and APA Requirements* for percentage of repurposed work that can be used in an assignment), unauthorized possession of academic materials, and unauthorized collaboration. The CSU-Global Library provides information on how students can avoid plagiarism by understanding what it is and how to use the Library and Internet resources.

Citing Sources with APA Style
All students are expected to follow the *CSU-Global Guide to Writing and APA Requirements* when citing in APA (based on the APA Style Manual, 6th edition) for all assignments. For details on CSU-Global APA style, please review the APA resources within the CSU-Global Library under the "APA Guide & Resources" link. A link to this document should also be provided within most assignment descriptions in your course.

Disability Services Statement
CSU–Global is committed to providing reasonable accommodations for all persons with disabilities. Any student with a documented disability requesting academic accommodations should contact the Disability Resource Coordinator at 720-279-0650 and/or email ada@CSUGlobal.edu for additional information to coordinate reasonable accommodations for students with documented disabilities.

Netiquette
Respect the diversity of opinions among the instructor and classmates and engage with them in a courteous, respectful, and professional manner. All posts and classroom communication must be conducted in accordance with the student code of conduct. Think before you push the Send button. Did you say just what you meant? How will the person on the other end read the words?

Maintain an environment free of harassment, stalking, threats, abuse, insults or humiliation toward the instructor and classmates. This includes, but is not limited to, demeaning written or oral comments of an ethnic, religious, age, disability, sexist (or sexual orientation), or racist nature; and the unwanted sexual advances or intimidations by email, or on discussion boards and other postings within or connected to the online classroom. If you have concerns about something that has been said, please let your instructor know.