

Northwestern University
Kellogg School of Management

BUS_INST 304
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Course Syllabus

Course description

BUS_INST 304 covers managers' and investors' most fundamental finance decision: how to value a project or an asset. Managers must determine the value of building a factory, entering a new market, or purchasing an entire firm when deciding in which projects to invest. Similarly, individuals must assess the value of financial securities to decide how to invest their wealth. Using a combination of lectures and business cases, BUS_INST 304 teaches methods for valuing projects or assets. These valuation tools lay the foundation for all work in capital markets and corporate finance.

Modality

In person

Course readings

1. Corporate Finance, Jonathan Berk and Peter DeMarzo, 6th Edition, Pearson.
The textbook readings and problems are recommended but **optional**. Some students find the lecture notes to be sufficient to learn the required material for the class. However, many other students find the textbook very helpful in understanding the material. I do not care which edition you purchase.
2. Lecture slides, cases, and readings as assigned. Lecture slides and readings will be posted on the course website. Cases will be distributed via the study.net link on Canvas. I recommend that you read the presentation before class.

Grading Policy

Your grade in the course will be based on the maximum of the following two options:

	<u>Option A</u>	<u>Option B</u>
Case memos	20%	20%
Midterm exam	25%	0%
Final exam	45%	70%
Peer review	5%	5%
Class participation	5%	5%
Total	100%	100%

However, your grade may be reduced by up to 12 points if you fail to submit some or all of the HW assignments at the due date.

Your final course grade will be curved and depend on your relative performance in the class. Final grades will be given in accordance with Business Institutions Program policy.

1. **Individual HW Assignments:** There are individual HW assignments to be submitted before the beginning of the class for which they are due. Generally, submission will be made through Canvas.
2. **Case memo assignments:** These case assignments are group assignments. There should be at most five students per group. You are responsible for choosing your groups on your own on Canvas and all groups must be chosen before the second class meeting. Case questions will be posted on Canvas. You should turn in your memo at the beginning of class, but keep a copy as you will be expected to contribute to the class discussion based on your analysis. The cases are your opportunity to apply the concepts you have learned thus far to messy, real world situations. If you are unclear about something, make an assumption, state this assumption clearly in your answer, and move forward with your solution. As long as your assumption is reasonable, then your approach will be acceptable. Discussions of the cases will take place during class, but no “solutions” will be provided. For each case, one member of each group must upload files to Canvas. Remember, these are real world cases, and not always there is one correct answer (though there are many wrong answers).
3. **Midterm Exam:** The midterm will cover the first half of the course. The midterm exam is optional. If you don't take it, then the points of the midterm exam will be added to the final exam.
4. **Final Exam:** The final exam will be held in our regular classroom. The final will cover the entire course. If your score on the final exceeds your score on your mid-term, the mid-term will not be taken into account.
5. **Peer review:** At the end of the class, no later than end of Week 10, group members will have the opportunity to evaluate each other. You may name a group member (or members) for a grade reduction from your group's overall case grade. To submit such a request, simply email me the names of everyone in your group for whom you want to submit a reduction. Explain why and what percentage you think should be deducted from their case grade, up to a maximum of 50%. If I am convinced, I will take the average grade reduction for a group member (across all other group members) and then apply this to the case assignment portion of their grade.
6. **Participation:** I intend for the class to have the format of a discussion rather than a lecture. I may cold-call students, so please make sure you are prepared. If you do miss class, it is your responsibility to cover the missing material. We will take attendance in class using Aplus+

attendance. Students may be absent up to five times before the attendance portion of the grade is affected. You will be given notice before any participation point deductions.

Calculation of final course grade

The approximate distribution of grades assigned in this course will be as follows. Approximately 40% of students will receive an A/A-, approximately 50% of students will receive a B+/B/B-, and approximately 10% of students will receive a grade of C+/C/C- or lower. The school suggests this grade distribution across all core finance classes. Grades are assigned on a relative basis. There is no minimum score needed to get a given grade; nor is there guaranteed grade for a certain score.

Re-grade Policy: If you feel that your homework assignments, cases, or exams have been incorrectly graded, you can submit a re-grade request. All requests must be made in writing (via email) within seven working days after the assignment or exam has been graded, returned and received by you. Your request should consist of a short, explicit explanation of why you think the grading is incorrect. Upon submission of a re-grade request, I will review your entire assignment/exam and will let you know my decision as quickly as possible. Notice that your grade might increase or decrease.

Additional rules regarding assignment submissions

- Late submissions will receive no credit. Deadlines for this class are non-negotiable. If you have a question about a deadline, you should resolve your question sufficiently prior to the deadline so that you can complete the assignment by the due date.
- All students within a study group will receive identical scores on group case submissions. Responsibility for submitting the desired answers by the deadline is the joint responsibility of the entire group, regardless of how the group determines the allocation of the work.

Office Hours: Our TA will hold regular office hours throughout the semester. I can also meet by appointment with students. To schedule an appointment to meet, send me an email directly and list the time(s) you are available to meet. Please do not email the TA with questions.

No questions are answered about a case before it is turned in. If you are unclear about something, make an assumption, and state this assumption very clearly in your answer, and move forward with your solution. As long as your assumption is reasonable, then your approach will be acceptable.

Classroom etiquette

1. **Attendance:** I expect you to attend every class, as there is material discussed in class that is not found elsewhere. Students missing class are expected to speak with classmates about material that was missed.
2. **Electronic devices:** You may not use electronic devices for non-class purposes (i.e. email, web-surfing) during class.
 - Phones: Please turn off your phones while in the classroom.
 - Laptops: We will use laptops at various times in class. Apart from these moments, I require that laptops and tablets be closed.
3. **Tent Cards:** Please bring the tent cards to class and have it displayed throughout the quarter. This will help me to learn your names.

Access to course information via the web

Lecture slides, assignments, and course readings will be available on the course Canvas page. Grades will be entered into the electronic gradebook.

Other

All course materials are the intellectual property of the instructor. You may not distribute class materials electronically or in any form to anyone – inside or outside of Northwestern University. In particular, you may not share course materials with other students or with your employers after graduating from Northwestern University.

Students can find useful resources for safety and security, academic support, and mental and physical health and well-being on the NU help [website](#)

Tentative Course Outline

Listed below are the topics and readings for each topic. "BD" refers to the textbook by Berk and DeMarzo. Please read the corresponding material in the textbook prior to the discussion of the topic.

This is a 10-week course. The midterm exam will be held at the beginning of week 6. The final exam will be held the week after the end of the course.

Module	Topics	Chapters readings (BD)
1.	<u>Introduction & Discounted cash flows:</u> <ul style="list-style-type: none"> • Course introduction • Time value of money 	4 Recommended: 1-3
2.	<u>Advanced Issues with Time Value of Money</u> <ul style="list-style-type: none"> • Interest rates quotes and adjustments • Loans • Inflation 	5
3.	<u>Capital Budgeting (1)</u> <ul style="list-style-type: none"> • Investment decision rules • NPV vs. IRR • Choosing between projects 	7
4.	<u>Capital Budgeting (2) - Valuation of projects and companies:</u> <ul style="list-style-type: none"> • Forecasting the free cash flow • Estimating the terminal value • Free cash flow valuation 	8, 19.1-19.3, 19.5 (section on discounted cash flows only), 19.6.
5.	<u>Valuation of Bonds:</u> <ul style="list-style-type: none"> • Valuation of bonds • Yield to maturity 	6
6.	<u>Valuation Based on Multiples:</u> <ul style="list-style-type: none"> • Multiples approach to valuation 	9
7.	<u>Risk and return (1)- Portfolio theory:</u>	10.1-10.6, 11.1-11.6.

	<ul style="list-style-type: none"> • Definition of risk • Understanding Diversification • Portfolio optimization • The Capital Market Line (CML) 	
8.	<p><u>Risk and return (2)- The Capital Asset Pricing Model (CAPM):</u></p> <ul style="list-style-type: none"> • The risk return tradeoff • The security market line (SML) 	10.7-10.8, 11.7-11.8.
9.	<p><u>Valuation with the CAPM:</u></p> <ul style="list-style-type: none"> • Estimating the cost of capital • Capital structure and the weighted average cost of capital (WACC) • Capital budgeting with risk 	12
10.	<p><u>Financial Options:</u> (time permitting)</p>	20

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