

B6301 CORPORATE FINANCE

Course Description:

This is the core course in finance, required of all students in the MBA program. It may be considered the first course in corporate perspective. It focuses on the primary tasks of the corporate treasurer, showing students how to use ratio analysis to assess corporate performance and project financial statements and cash needs for both projects and whole companies. It devotes substantial time to the question of how much debt is optimal in a firm's capital structure. It then introduces discounted cash flow and shows how to estimate a weighted average cost of capital to use as a discount rate appropriate to a particular company or project. By the end of the course, students have all the tools necessary to value a company by projecting its free cash flow and discounting it at an appropriate rate. The case method will be used extensively.

Type and Length of Exam:

Students are given 5 hours in which to complete the exam. Open book. Calculators are permitted. Laptop computers are not permitted for this exam.

Specific Topics Covered:

The course description (above) provides an overview of these topics.

If you have significant experience in Finance, such as an undergraduate major in Finance and in-depth understanding of corporate valuation techniques, you want to take this exam in lieu of taking the course. However, we strongly encourage all students in the program to take the course, rather than the exemption exam, because the content and design of the course will provide added value to your program of study at Columbia Business School and in your future career.

Recommended Reading for Review:

Higgins, Robert C. *Analysis for Financial Management*, 5th Edition
Brealey, Richard and Myers, Stewart. *Principles of Corporate Finance*. Chapters 1-19, 22.

Sample Exam:

See attached.

Refer to Harvard Business School case 9-278-143, **Kennecott Copper Corporation**. To order this

case, send e-mail to studentaffairs@claven.gsb.columbia.edu or wait to receive the Commit Pack.

B6301 CORPORATE FINANCE
Sample Exemption Exam

Kennecott Copper Corporation

Exam Questions and Requirements

As you answer the following questions, be sure to show all your work, explain your reasoning and state any necessary assumptions you made. Please be concise but thorough.

1. If Carborundum were to continue to operate as a stand alone unit from 1978-82, what would be its external funds requirements each year and in total? Explain.
2. Given your answer to question (1) and the description of Carborundum, is the suggested 35% debt level appropriate for the proposed acquisition of Carborundum at a price of \$66 per share? Explain.
3. What is the appropriate cost of capital, or discount rate, for Kennecott's proposed acquisition of Carborundum at \$66 per share? Explain.
4. Is the purchase of Carborundum for \$66 per share in cash plus the assumption of \$86.2 million in Carborundum debt a worthwhile project for Kennecott? Explain.