

**UNIVERSITY OF MARYLAND**  
**The Robert H. Smith School of Business**

**BMGT 741: Advanced Financial Management**

*Spring 2003*

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**Office Hours: Mondays, 3:30 – 5:00 pm *and by appointment***

**Course Objective:** This is an advanced course in corporate finance. It provides an advanced treatment of topics previously covered in the core course and introduces new topics. By the end of the course, you should have developed an expanded ability to analyze and think about contemporary issues in corporate finance so as to make a significant contribution to a team or task force setting financial policy in a corporate environment. The main subject areas covered in the course are:

- Advanced Capital Budgeting and Value Creation
- Advanced Capital Structure and Current Debate on Dividend Taxation
- Initial Public Offerings
- Options in Corporate Finance: Real Options and Advanced Securities
- Financial Contracting, Corporate Governance, and Current Debate
- Financial Distress and Privatization of Bankruptcy
- Corporate Hedging and Risk Management

**Approach:** The course adopts a *capital market approach* to the study of corporate finance through *applications* of the *risk-return tradeoffs* in capital markets and simple *option pricing* models. This is consistent with the overall *objective* of maximizing *shareholder wealth* in financial decision-making. The pedagogy consists of lectures interspersed with case studies. You will work in a *team* to analyze the cases. Sections begin with lectures and discussions. *You should come to class fully prepared to engage in active discussion.*

**Case Preparation and Presentation:** The students will be organized into 4-5 team members. Each team is responsible to make *one* case presentation. The list of cases and the guidelines for case preparation are contained *at the end* of this syllabus. Each team is assigned a *grade* for case preparation and presentation. The grouping provides an opportunity for *team work/learning* that is vital for your success in the finance profession. However, to mitigate “free ridership”, there will be *peer evaluation*. Each participant will rate the contribution of the other members of the group. These ratings will be used in the determination of the final grade for individual members. Note that your team’s

preparation and presentation must be based on the effort of your own team members. You are *not* allowed to discuss the case with individuals in other teams.

*Note:* Teams should make either *transparency or Power point* presentations. Please submit an electronic version of PowerPoint slides (or regular transparency slides) a day in advance of your presentation. You are also encouraged to provide key handouts to your audience.

**Case Briefs/Memos:** Each team is required to turn in 2 brief case write-ups (“*case briefs*”), using the same guidelines for case preparation.. These case briefs should not exceed two pages (single-spaced). You may attach relevant exhibits, such as graphs and tables, to the two-page briefs. You should only include exhibits that are referenced in the brief. You need not *rehash* the case situation in your write-up, but use your best judgment as to how much case material to include. You should, however, take a stand on the resolution of the case and provide recommended solutions after you provide a clear diagnosis and analysis of the salient issues in the case. You are expected to choose your own cases for the case briefs, but they should be dispersed *uniformly* through the semester. *Note that the case briefs should be in 12 point type with 1 inch margins.*

**Class Participation:** While the case preparations and presentations are team effort, all the students are expected to read *all* the cases and be prepared to open *all* case discussions. In addition, you are all expected to engage in active *class participation* so as to maximize your own learning experience and contribute positively to your classmates. It is important that you attend *all* the classes. If you miss class, your learning will be impaired. Equally important, you can’t add your unique insights to class discussion. In the unlikely event that you miss a class, or come late, make sure you obtain lecture notes and announcements from your designated classmate.

**Course Examination:** There is *only* one exam in the course, given that you will be working on an extensive term project (see below). The exam is given toward the *latter* part of the semester. It may include problems, conceptual questions, and short cases.

**Assignments:** Assignments are listed in the course outline, and they are drawn from end-of-chapter problems in the text and occasional handouts. They are primarily for class discussion, and they are due at the completion of the relevant subsections. You should be prepared to hand in these assignments on the due dates. Some may be graded.

**Term Project:** The term project is intended to provide an opportunity for real world analysis, and it is described *at the end* of the course outline. You should choose this project with care, as it is expected that you will be spending considerable amount of time working on it. A team of 3-5 students should do the term project.

**Current Events:** You should keep abreast of current events that are relevant to the topics covered in the course (e.g., current debate on dividend taxation, corporate governance failures and reforms, airline bankruptcies). Be an aggressive consumer of such periodicals as the *Wall Street Journal*, *Financial Times*, *The Economist*..

**Blackboard/web access:** You should be able to access various course materials, announcements, and discussion notes through a blackboard environment via the following website: <http://bb.rhsmith.umd.edu>. To log on, you need your University Directory (LDAP) id and password. To find your login id and password, go to <https://www.ldap.umd.edu/cgi-bin/chpwd>. Your current e-mail address must be maintained in Testudo, since Blackboard uses this to send e-mail relating to the course. For further information about the Blackboard, consult: <http://www.rhsmith.umd.edu/blackboard>.

**Text/Supplementary Readings:** *Lectures* and *cases* are the primary source of material for the course. To help you in taking lecture notes, lecture aids will be available in an outline form and electronic version. There are also *readings* to supplement the required text. You should read the text and reading assignments (see the course outline below) before you come to class. The cases and supplemental readings are contained in a *course packet* that you can pick up from the University bookstore.

(a) **Required Text:** Stephen Ross, Randolph Westerfield, and Jeffrey Jaffe, Corporate Finance (McGraw-Hill Irwin, 2002). Referred to in the course outline as "*Text*."

(b) **Course Packet (Required);** Referred to as "*Packet*" [Cases and Readings].

© **Recommended:** Amir Barnea, Robert Haugen, and Lemma W. Senbet, Agency Problems and Financial Contracting (Prentice-Hall, 1985). Referred to as "*BHS*" [Relevant chapters included in a course packet]

**Grading:** The overall grade will be determined on the basis of:

Case Preparation and Presentation	20%
Class Participation and Case Briefs	15%
Graded Assignments	15%
Course Examination	25%
Term Project	25%

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### Important Notice from the Smith School

1. **Academic Integrity:** The University's *Code of Academic Integrity* is designed to ensure that the principles of academic honesty and integrity are upheld. All students are expected to adhere to this Code. The Smith School does not tolerate academic dishonesty. All acts of academic dishonesty will be dealt with in accordance with the provisions of this code. Please visit the following website for more information on the University's Code of Academic Integrity:  
[http://www.inform.umd.edu/CampusInfo/Departments/JPO/AcInteg/code\\_acinteg2a.html](http://www.inform.umd.edu/CampusInfo/Departments/JPO/AcInteg/code_acinteg2a.html)  
 On each exam or assignment you will be asked to write out and sign the following pledge. "*I pledge on my honor that I have not given or received any unauthorized assistance on this exam/assignment.*"

2. **Special Needs:** Any student with special needs should bring this to the attention of the instructor as soon as possible, but not later than the second week of class.

## COURSE OUTLINE

### I. OVERVIEW: CORPORATE GOVERNANCE AND THE FIRM AS A NEXUS OF CONTRACTS

*[Feb 3, 2002]*

Text: Chapter 1, pp. 15-19

M. Miller, "Is American Corporate Governance Fatally Flawed?", Journal of Applied Corporate Finance, Winter 1994 (*Packet*).

### II. ADVANCED CAPITAL BUDGETING AND VALUE CREATION

#### A. Sources of Value Creation: Dividend-Based and Growth Opportunity-based Valuations *[Feb 3, 10]*

Text: Ch. 5, pp. 108 - 124. *Do chapter assignments: #8, 26*

*Assignment (due Feb 17):* Stock Valuation [for details, see lecture aids]

*Handout:* "The Value of Common Stocks" [Brealey/Myers, 2003; Ch.4], p.59-89. *Chapter assignments: #10, 23*

#### B. Incremental Analysis *[Feb 10]*

Text: Ch. 7, pp. 169-177

**\*Case: The Super Project** *\*(Packet)* *[Feb 10]*

*\*Survey:* J. Graham and C. Harvey, "How Do CFOs Make Capital Budgeting and Capital Structure Decisions?", Journal of Applied Corporate Finance, Spring 2002, pp. 8-13 (*packet*)

#### C. Risk and Divisional Costs of Capital *[Feb 10, 17]*

##### 1) Risk-Adjusted Discount Rates: Company and market perspectives

Text: Ch. 12

“Best Practices in Estimating the Cost of Capital: Survey and Synthesis”, UVA Case #12, in R. Bruner, Managing for Corporate Value Creation (Irwin/McGraw, 1999) [*Packet*].

**\* Case: Pioneer Petroleum Corporation** (*Packet*)      [*Feb 17*]

2) Certainty Equivalent Adjustments and Resolution of Uncertainty

*Handout*: "Capital Budgeting and Risk" [B/Myers, ch. 9], p.239-251. **#13, 16, 17**

### III. ADVANCED CAPITAL STRUCTURE

A. The Implications of The Modigliani-Miller Arbitrage Theory: Reminder [*Feb 24*]

Text: Ch. 15 (pp.391-407). Do assignments: **#4, 10**

BHS: Ch. 2 (pp. 6-14) [*Packet*]

B. Tax Effects of Debt Finance

1. Tax Subsidy and Adjusted Present Value      [*Feb 24, March 3*]

Text: Ch. 15 (pp. 408- 416), Ch. 17

**\*Case: Southport Minerals, Inc.\*** (*Packet*)      [*March 3*]

2. Generalization and the Miller Model: Interaction with Taxation of Equity Income – incorporating the debate on dividend taxation      [*March 3*]

Text: Ch. 16 (pp.443-448), Appendices 16.A and B ). Assignments (Ch. 16): **#4, 11, 15, 17, Appendix A (16.19)**

**\*Case: Hospital Corporation of America\*** (*Packet*)      [*March 10*]

C. Applications      [*March 10*]

1. *Survey*: J. Graham and C. Harvey, “How Do CFOs Make Capital Budgeting and Capital Structure Decisions?”, Journal of Applied Corporate Finance, Spring 2002, pp. 13- 22 (*packet*)

2. Leveraged Buyouts and Recapitalizations

Text: Appendix 17A

D. Summing Up: Determinants of Capital Structure **[March 10]**

Text: Ch.16 (pp. 448-454); *Good Year Tire and Rubber* (Appendix 16C)

A. Hovakimian, T.Opler, and S. Titman, “The Capital Structure Choice: New Evidence for a Dynamic Tradeoff Model”, Journal of Applied Corporate Finance, Spring 2002 (*packet*)

**IV. INITIAL PUBLIC OFFERINGS: GOING PUBLIC**

A. Going Public: Initial Public Offerings **[March 10, 17]**

Text: Ch. 19, Assignment: # **19.7**.

J. Ritter, “Initial Public Offerings”, Contemporary Finance Digest, July 1997 (*Packet*)

B. IPO Puzzles **[ March 17]**

**\*Case: Netscape’s Initial Public Offering\*** (*Packet*) **[ March 17]**

**V. OPTIONS CHARACTERISTICS OF CORPORATE FINANCE**

A. Option Characteristics of Corporate Securities and Valuation of Advanced Securities **[March 17, 31]**

Text: Ch. 22 (pp. 633-642), Ch. 24. Assignments (Ch.22) #**25, 26**; (24) #**11, 12, 15**

**\* Case: Bronson Electronics Co\*** (*Packet*) **[ March 31]**

B. Option Characteristics of Capital Investments: *Real Options* **[ March 31, April 7]**

Text: Ch. 22 (pp. 642-644). See the *oil drilling* illustration (lecture aids)

“Capital Projects as Real Options: An Introduction”, Harvard case note (#295-074), in Kester, et al, Case Problems in Finance (Irwin, 1997) [*Packet*].

*Handout*: “Real Options” [Brealey/Myers; Ch. 22]. Practice:#**1**;Challenging: #**2**

**\* Case: Arundel Partners: The Sequel Project\*** (*Packet*) **[April 7]**

## VI. AGENCY PROBLEMS: FINANCIAL CONTRACTING AND CORPORATE GOVERNANCE

### A. Classes of Agency Problems [April 7]

Text: Ch. 16 (pp.427- 443); Ch. 22 (pp. 639-.640).

A. Barnea, R. Haugen, and L. Senbet, "Market Imperfections, Agency Problems, and Capital Structure." Financial Management, Summer 1981 (*Packet*).

**\* Case: Marriott Corporation (A)\*** (*Packet*) [April 14]

### B. Solutions to Agency Problems: Institutional and Contractual Mechanisms [April 14]

#### 1. Markets and Corporate Governance

K. John and L. Senbet "Corporate Governance and Board Effectiveness", Journal of Banking and Finance, anniversary issue, 1998 (*Packet*).

"How to Fix Corporate Governance", *Special Report*, Business Week, May 2002 (*Packet*)

#### 2. Financial Contracts (Complex): Executive Options, Callables/Convertibles

BHS: Ch. 6 (*Packet*), Text: Ch. 23 (pp. 650-658), Ch. 24 (pp. 687-690)

L. Muelbroek, "The Efficiency of Equity-Linked Compensation: Understanding the Full Cost of Awarding Executive Stock Options", Financial Management, Summer 2001 (*Recommended*)

#### 3. The Sarbanes – Oxley Act (2002): Reforms in Corporate Governance

### C. The Pecking Order Theory: Implications for Financial Sequencing [April 14, 21]

BHS: Ch. 7 (*Packet*), Text: Ch. 16 (pp. 438-442); *Evidence*: Ch. 14 (pp. 382-387).

**Case: Intel Corporation (1992)\*** (*Packet*) [April 21]

## VII. FINANCIAL DISTRESS AND PRIVATIZATION OF BANKRUPTCY [April 21, 28]

Text: Ch. 31; BHS: Ch. 5 (*Packet*). Assignments: Text: #16.2, 31.3, 4, 6

**\* Case: Massey Ferguson\*** (*Packet*) [April 28]

R. Haugen and L. Senbet, "The Insignificance of Bankruptcy Costs to the Theory of Optimal Capital Structure," Journal of Finance, May 1978 (*Packet*).

S. Gilson, "Managing Default: Some evidence on How Firms Choose between Workouts and Chapter 11", Journal of Applied Corporate Finance , Summer 1991 (*Packet*)

"Bankruptcy in America: The Night of the Killer Zombies", The Economist, December 2002 (*Packet*).

## VIII. HEDGING AND RISK MANAGEMENT

[April 28, May 12]

Text: Ch. 25. Assignments: #25.7, 8

"Interest Rate Derivatives", Harvard Case Note # 9- 294-095 (*Packet*)

Smith, C. "Corporate Risk Management: Theory and Practice", mimeo.[*Packet*].

\* **Case: Liability Management at General Motors\*** (*Packet*) [May 12]

## IX. CONCLUSION

[May 12]

A. Interpreting Recent Corporate Financing Patterns

Text: Ch. Text 14 (pp. 382-387)

B. Finance and Public Policy: Implications of Social Agency Problems

Boutchkova, M. and W. Megginson, "Privatization and the Rise of Global Capital Markets", Financial Management, Winter 2000 (*Packet*)

L. Senbet, "Global Financial Crisis: Implications for Africa", Journal of African Economies (Oxford Univ Press), Vol. 10, 2001 (*Recommended*)

\* **Presentations of Term Project\*** [ May 19 – first year final exam day; Second year students may present on May 5 – ELM day].

\***Course Exam: TBA** [Saturday; vicinity of April 21]

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**Note:** The extent of the course material is substantial, and we may not complete it all. Classes begin with lectures and discussions.

## Term Project

Now it is time for a term project. The purpose of this project is to give you an opportunity to conduct a real world company analysis on a contemporary finance topic of your choice. This project will determine 25% of your grade. The report can vary in length, but it should not exceed 30 pages, including exhibits. It should be double spaced with normal margins.

It is my strong recommendation that you talk directly to the company's executives when possible. My sense is that many companies in the Washington area are willing to talk to our MBA students, and it will give you some direct, and even high level, exposure.

The project will involve a team of 3-5 *students*. The potential topics you may consider for the project include, but not limited to: *financial claims structure; financial restructuring and bankruptcy; going public or initial public offerings; corporate governance reform proposals*, etc. I suggest that you pick a topic area that you can consult with some firms in the Washington area. That will improve your analysis and afford you additional insights. The following are specific topic suggestions and guideline questions. You are by no means limited to them.

**A. *Financial Claims Structure*:** For this project, you may choose companies, such as Marriott International, Lockheed-Martin, AOL Time Warner, US-AIR, and do an analysis of its claims structure. Your analysis should include (but not limited to) the following issues:

1. How much debt does the company have?
2. Should it have more or less? Why? What is the likely influence of proposed elimination of dividend taxation? Use insights from the Miller-type analysis in discussing the interaction between taxation of equity income and debt finance.
3. Is the structure of debt (i.e., convertible bonds, callables, callable-convertibles, floating rate, dual currency, etc) reasonable? Is the claims structure too complex or simple?
4. Are there risk management or hedging dimensions to the company's financial structure? Are they reasonable and adequate?

**B. *Financial Restructuring /Bankruptcy Proceedings*:** For this project, you may choose a financially troubled company in the gypsum industry [e.g., US Gypsum, National Gypsum, Republic Gypsum] *or* a company in an airline industry or retail industry. Your analysis should include (but not limited to) the following issues:

1. How did the firm's cash flows and business risk affect its "performance"?
2. What factors led to changes in the capital structures of the firm? What is the role of corporate governance structure on its performance?

3. What are the risk-reward potentials for investors buying into this financially troubled firm? Would you buy the securities (bonds and stocks) after bankruptcy filings?
4. Discuss the changes in investment after any capital structure change or bankruptcy, if any, for firms in the industry.
5. Discuss the experience of its creditors in Chapter 11.

**C. Going Public:** For this project, you may choose a company in the computer industry (e.g., AOL Time Warner) or other industries, such as biotechnology and medical technology, and analyze issues relating to going public/initial public offerings. Your analysis should include (but not limited to) the following issues:

1. Provide a discussion and analysis of annual financial statements for the company and its competitors. Discuss industry and competitor's ratios, identifying financial strengths and weaknesses. Why do you think the company decided to go public?
2. Has the company performed "well" following the IPO? Investment/market share relative to its competitors?
3. Estimate the required rate of return for stock for at least one company in the industry using stock market data from the *Daily Stock Price Record* or from the *Wall Street Journal*.
4. Given information in the prospectus and other competitors what should be the offering price? Discuss the price set by the investment banker vs. the closing price after the first day of trading. Is there any difference? If so, should management be "upset"? Was the company priced incorrectly? If so, why?
5. Do you recommend the company for an investment - What are the risks and potential rewards?

### Cases: Guideline Questions

The course packet includes eleven cases (listed below). Nine of these cases require team presentations. The other two cases (asterisked), *Bronson Electronics* and the *Super Project*, will not be subject to team presentations. The case of Bronson Electronics (valuation of convertible bonds) requires an *individual* effort.

The Super Project (9 – 112- 034)\*

Pioneer Petroleum Corporation (9-292-011)

Southport Minerals (0-274-110)

Hospital Corporation of America (9-283-053)

Netscape Corporation IPO (IES047)

Bronson Electronics\*

Arundel Parnters: The Sequel Project (9-292-140)

Marriott Corporation (A) (9-394-085)

Intel Corporation (1992) (9-292-106)

Massey Ferguson, 1980 (9-282-043)

Liability Management at General Motors (9-293-123)

There are no absolute right answers to the issues raised in the cases. However, there are good and bad arguments, and the case preparation and class discussion, as well as the case briefs (write-ups), should help distinguish between sensible and senseless arguments. Generally your presentations should include: (a) clear statement of the problem and the salient issues raised in the case, (b) clear analysis, and (c) recommended solutions or actions. You should consider yourself as a *consulting group*, and your audience (the class) is the *management team* of the company. Your continued employment as consultants will be critically dependent on your ability to *communicate* clearly, the rigor in your *analysis*, and clear and forceful *justification* for the recommended actions.

The following questions are designed to serve as *guidelines* for case analysis. However, you are not limited to these questions, and you may address other issues that you think are relevant. It is important that you take a *position* regarding the case problem and make specific recommendations. Provide an effective and clear support for your recommendations.

### **The Super Project**

1. What are the relevant cash flows for General Foods to use in evaluating the Super project? In particular, how should management deal with issues such as (a) test-market expenses, (b) overhead expenses, (c) erosion of jell-O contribution margin, and (d) allocation of charges for the use of excess agglomerator capacity?
2. How attractive is the investment as measured by various capital budgeting techniques (i.e., net present value, internal rate of return, payback method, accounting rate of return)? How useful is each of these techniques?
3. How attractive is the Super project in strategic and competitive terms? What potential risks and benefits does General Foods incur by either accepting or rejecting the project?
4. Should General Foods proceed with the Super project? Why?

### **Pioneer Petroleum Corporation**

1. How should Pioneer's cost of equity capital be estimated?
2. Does Pioneer estimate its overall corporate weighted average cost of capital correctly? Consider the technique, the rates, and weights.
3. Should Pioneer use a single corporate cost of capital or multiple divisional hurdle rates in evaluating projects and allocating investment funds among divisions?
4. How should Pioneer set capital budgeting criteria for different projects within a given division? How should these different standards be determined?
5. Should the discount rate for environmental projects vary by division or be the same throughout Pioneer?

### **Southport Minerals**

1. What are the risks of the Firstburg investment proposal?
2. How did the specific financing choice available to Southport Minerals alter both the risk and return potential of the Firstburg investment proposal? How effective was it in dealing with the project risks?
3. If you were trying to negotiate an improvement in the terms of the Firstburg financing proposals, in which of the following areas would you concentrate your efforts, and why would you concentrate them there? (a) interest rates; (b) debt maturities; (c) allowable dividends; (d) price terms?
4. Which method of analyzing the value of the Firstburg investments proposal to Southport Minerals is most reasonable? Why are the other methods less reasonable? Provide your best estimate of the project's value by using the adjusted present value approach.

### **Hospital Corporation of America**

1. Assess HCA's performance and business strategy. What is the likely impact of the changing regulatory environment? Should HCA push for growth or profitability?
2. How does HCA's financial strategy affect its product market strategy? How important is finance to HCA?
3. Evaluate HCA's set of financial goals. Are they achievable as a group? How might the debt policy affect HCA's ability to achieve these goals?

4. Should HCA be concerned about losing its single-A bond rating? In general, how much importance should a company attach to credit ratings when establishing its target debt policy?
5. How much financing does HCA need over the next few years? What target debt ratio do you recommend? What mix of securities seems best?

### **Netscape Corporation**

1. Why has Netscape been successful to date? How risky is its competitive position? What must it do to remain successful in the long-run.
2. Does Netscape need to go public to satisfy its capital needs? What would you estimate might be the magnitude of its capital needs over the next 3-5 years? What other sources of capital might be tapped to satisfy these needs?
3. Should the Netscape board be concerned with underpricing? Why and why not?
4. Can the recommended offering price of \$28 per share be justified?

### **Bronson Electronics**

Case in valuation of convertible bonds. Individual effort. Questions will be furnished later.

### **Arundel Partners: The Sequel Project**

1. Why do the principals of Arundel Partners think they can make money buying movie sequel rights? Why do the partners want to buy a portfolio of rights in advance rather than negotiating film-by-film to buy them?
2. Estimate the per-film value of a portfolio of sequel rights such as Arundel proposes to buy. You may use all or parts of Exhibits 6-9. You may also find it helpful to consult the Appendix that explains how these numbers were prepared.
3. What are the primary advantages and disadvantages of the approach you took to valuing the rights? What further assistance or data would you require to refine your estimate of the rights' value?
4. What problems would you expect Arundel and a major studio to encounter in the course of a relationship like that described in the case? What contractual terms and provisions should Arundel insist on?

### **Marriott Corporation (A)**

1. Why is Marriott's chief financial officer proposing Project Chariot? What is your assessment of MC's financial condition? Is this project necessary for the company's survival?
2. Is Project Chariot consistent with management's responsibilities? To bondholders? To shareholders? To the public?
3. The case describes two conceptions of manager's fiduciary duty. Which do you favor: the shareholder conception or the corporate conception? Does your stance make a difference in this case?
4. Should Mr. Marriott recommend the proposed restructuring to the board?
5. Who will be affected by Project Chariot? Should MC make any concessions to the bondholders?

### **Intel Corporation**

1. What is driving the changing competitive structure of the microprocessor market?
2. What is the role of Intel's cash and subsequent financial slack in its competitive advantage? What is about cash – as opposed to external financing – that makes Intel's precommitment more effective?
3. What are the other costs and benefits to holding cash? Consider the following issues: tax benefits of financing; managerial agency costs; signaling issues, etc.
4. Does Intel have too much cash? You may construct a simple sources and uses statement to support your argument.
5. What do you regard is an appropriate capital structure for a firm in a highly innovative business? What are the appropriate mechanisms for disbursement of cash from Intel: stock repurchases? Dividends? Justify the put-warrant and convertible bond offering.

### **Massey-Ferguson**

1. Assess the product-market and financial strategy Massey pursued throughout 1976. How does Massey differ from its competitors?
2. As a financial advisor to Massey's management, what refinancing plan would you propose? Be specific - Hint: Use Proforma financial statements to make sure your proposed plan is viable.
3. How does the plan affect various interested parties: shareholders, lenders, employees, governments and management?
4. Why, fundamentally, did Massey get into financial trouble?

### **Liability Management at General Motors**

1. How will changes in interest rates affect GM's business? Speculate the various ways in which changes in interest rates influence the demand for autos, the prices the firm can charge, its input costs, etc. Apart from engaging in derivative securities, like those discussed in the case, how could a firm like GM control its exposure to interest rates?
2. Evaluate each of the options that Stephane Bello faces to hedge interest rate risk. Evaluate how each of the options affects the risk of the issue.
3. How has GM measured its exposure? How would you propose that GM measures its interest rate exposure? How would you propose that GM reports the interest rate exposure of its business, and of its liabilities?
4. What should be GM's over-arching policy toward managing interest rate exposure? For example, should GM seek to ensure that changes in interest rates do not affect operating cash flow? The market value of the firm's equity? GM's ability to invest in new technologies? Be prepared to discuss GM's stated policies.

