

UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE 601

Fall 2010

Tu., Th., 351 SH-DH

9am, 10:30am, 1:30pm

Sections 1, 2 and 3

Corporate Finance

Franklin Allen

2253 SH-DH

Tel: 215 898 3629; Fax: 215 573 2207; Email: allenf@wharton.upenn.edu Office Hours: Mondays: 8:00-9:00am and 3:00-5:00pm, Wednesdays: 8:00-9:00am and 3:00-4:00pm, and by appointment. Questions can be asked by e-mail at any time.

Outline: This course is intended to provide a market-oriented framework for analyzing the major types of financial decisions made by corporations. Lectures and readings will provide an introduction to present value techniques, capital budgeting principles and problems, asset valuation, the operation and efficiency of financial markets, the financial decisions of firms and derivatives.

Books: The required text book and special study guide, which can be obtained together at a discounted price at the Penn Bookstore, are:

R. A. Brealey, S. C. Myers, and F. Allen, *Principles of Corporate Finance*, 10th edition (New York: McGraw Hill, 2010). (Referred to as BMA below).

Student Supplement to accompany Brealey, Myers, and Allen's Principles of Corporate Finance, 10th edition (New York: McGraw Hill, 2010).

The latter is a special version of the study guide made for the course that also includes answers from the solutions manual for the end-of-chapter questions in BMA for Chapters 1-21. The price for buying the two together is only a few dollars more than the book itself and much cheaper than buying the book, study guide and solutions manual separately.

An electronic version of the book can be obtained at www.textbooks.vitalsource.com.

Those of you with a limited exposure to finance can consult the glossary at the end of BMA for the financial terms used. For those who want more the following additional text may be useful.

J. Downes and J. E. Goodman, *Barron's Financial Guides: Dictionary of Finance and Investment Terms*, 7th edition (Barrons Educational Series, 2010).

The Bulk Pack for Quarter 1 can be obtained from Study.net or downloaded from Webcafe. This contains problem sets, cases, example exams, and lecture notes for the first half of the course. All materials will be made available electronically on Webcafe during the course. The Bulk Pack for Quarter 2 will be available in a few weeks.

Calculators and Spreadsheets: The recommended calculator is an HP 17bII+. Older equivalent models such as the HP 17BII or HP 19BII are acceptable. Other calculators such as the HP 10BII, HP 12C, TI BAII or equivalents will put you at a disadvantage in exams. They do not allow you to enter formulas and the old HP 12C is also slow. If you wish to use another calculator

please come and see me to obtain a waiver. More advanced calculators or anything with download capabilities cannot be used. There will be a basic calculator review session on Friday, September 17 at 1:30-3:00pm in 350 SH-DH. You will also need to know EXCEL at an elementary level in order to do the cases. A brief introduction is posted on Webcafe in the file EXCEL_Introduction.ppt.

Grading: There will be one midterm counting for 30% and one final counting for 40% of the course grade. The final will emphasize the material from the last half of the course. To allow you to recover from a poor midterm, if your overall score is improved by a weighting of 10% on the midterm and 60% on the final then that score will count instead. The problem sets will count for 15% of the grade. Finally, there will be two cases that will count for a total of 15%. If illness forces you to miss an examination, please contact me before the test.

Weekly Handout: There will be a handout each Thursday with administrative details. It is important to read this. If you are unable to pick it up from class, it can be obtained from Webcafe.

Teaching Assistants: The details of the TA's office hours will be given in the first weekly handout.

Course Schedule, Readings and Due Dates: Note that the schedule for covering material in lectures is tentative. Because of questions we may sometimes run over or under the time allotted. If anybody has a problem meeting a due date because of a religious holiday, please let me know as soon as possible. Extensions will be granted in such cases.

Obtaining Webcafe Access for non-Wharton Students: Students who are enrolled in the class but who do not yet have a Wharton computing account may apply online at this site:

<http://accounts.wharton.upenn.edu>

QUARTER 1

Week 1:

Th: 9/9

Section 1: Introduction

Read Ch. 1 BMA

Section 2: The Objective Function for Corporations

Read Ch. 1 BMA

Week 2:

Tu: 9/14

Section 2 (cont.)

Th: 9/16

Section 3: Calculating Present Values

Read Ch. 2 BMA

Week 3:

Tu: 9/21

PROBLEM SET 1 DUE

Section 4: The Valuation of Bonds and Stocks

Read Chs. 3 and 4 BMA

Th: 9/23

Section 5: A Comparison of Investment Criteria

Read Ch. 5 BMA

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| Week 4: Tu: 9/28 | PROBLEM SET 2 DUE Section 5 (cont.) Section 6: Practical Aspects of the NPV Rule Read Ch. 6 BMA |
| Th: 9/30 | Section 6 (cont.) |
| Week 5: Tu: 10/5 | PROBLEM SET 3 DUE Section 7: Measuring Risk Section 7(i): Statistics Review Section 7(ii): A Theory of Asset Pricing: Introduction |
| Th: 10/7 | Section 7(iii): Mean-Standard Deviation Analysis Section 7(iv): Diversification and Beta Read Ch. 7 BMA and Reading for Section 7 on Webcafe |
| Week 6: Tu: 10/12 | PEACH CASE DUE BY 9am – UPLOAD TO WEBCAFE Section 8: The Capital Asset Pricing Model Read Ch. 8 BMA |
| Th: 10/14 | Section 8 (cont.) |
| Week 7: Tu: 10/19 | PROBLEM SET 4 DUE Section 9: Capital Budgeting and the CAPM Read Chs. 9 and 11 BMA |
| Th: 10/21 Tu: 10/26 | Exam Week for MBA Core – No class Exam week for MBA Core – No class |
| QUARTER 2 | |
| Week 1 Th: 10/28 | Review session during regular class |
| Week 2: Mon: 11/1 | MIDTERM EXAM 6:15-7:45pm |
| Tu: 11/2 | NO PROBLEM SET DUE Section 10: Market Efficiency Read Ch. 13 BMA |

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| Th: 11/4 | Section 10: Market Efficiency (cont.) Section 11: Issuing Securities Read Chs. 14 and 15 BMA |
| Week 3: Tu: 11/9 | PROBLEM SET 5 DUE Section 11: Issuing Securities (cont.) |
| Th: 11/11 | Section 12: Payout Policy Read Ch. 16 BMA |
| Week 4: Tu: 11/16 | PROBLEM SET 6 DUE Section 12: Payout Policy (cont.) Section 13: Capital Structure Read Chs. 17 and 18 BMA |
| Th: 11/18 | Section 13: Capital Structure (cont.) |
| Week 5: Tu: 11/23 | PROBLEM SET 7 DUE Section 13: Capital Structure (cont.) Section 14: Investment and Financing Decisions Read Ch. 19 BMA |
| Th: 11/25 | No class: Thanksgiving Holiday |
| Week 6: Tu: 11/30 | PROBLEM SET 8 DUE Section 14: Investment and Financing Decisions (cont.) Section 15: Valuation Read Ch. 19 BMA |
| Th: 12/2 | Section 15: Valuation (cont.) Section 16: Risk Management and Pricing Derivatives Read Chs. 20 and 21 BMA |
| Week 7: Tu: 12/7 | VALUATION CASE DUE BY 9am – UPLOAD TO WEBCAFE Section 16: Risk Management and Pricing Derivatives (cont.) |
| Th: 12/9 | Case presentations |
| Tu: 12/21 | FINAL EXAM: 9:00-11:00am |