

UNIVERSITY OF PENNSYLVANIA  
The Wharton School

Finance 100  
Fall 2006

A. Craig MacKinlay  
3255 SH-DH

## CORPORATE FINANCE

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**Course Web Page:** <http://finance.wharton.upenn.edu/~acmack>

### Course Description:

The purpose of this course is to introduce techniques of financial analysis, with emphasis on topics in the corporate finance area. The concepts developed in Finance 100 form the foundation for all elective finance courses. The main topics covered include (1) the time value of money and the net present value rule; (2) valuation of bonds and stocks; (3) capital budgeting decisions; (4) uncertainty and the tradeoff between risk and return; and (5) corporate financing and dividend policy decisions.

### Course Materials:

#### Required:

S. A. Ross, R. W. Westerfield and J. F. Jaffe, Corporate Finance, 7<sup>th</sup> Edition, McGraw-Hill Irwin, 2005. (Referred to as RWJ in course outline.)

A course bulk pack available from Wharton Reprographics.

A scientific or business calculator. It will be necessary for your calculator to have a  $x^y$  function.

#### Optional:

S. A. Ross, R. W. Westerfield and J. F. Jaffe, Corporate Finance (7<sup>th</sup> edition) – Selected Student Solutions, McGraw-Hill Irwin, 2005. (This solution manual is optional but strongly recommended.)

R. A. Brealey, S. C. Myers, and F. Allen, Principles of Corporate Finance, 8<sup>th</sup> Edition, McGraw-Hill Irwin, 2006. (Referred to as BMA in course outline.)

S. A. Ross, R. W. Westerfield, J. F. Jaffe, and B. D. Jordan, Corporate Finance: Core Principles and Applications, McGraw-Hill Irwin, 2007. (This text is basically an abbreviated version of the required textbook.)

**Evaluation:**

The course grade will be based on two midterm exams, a final exam, and several assignments (to be handed in). The weightings are:

Maximum of Midterm I and Midterm II	10%
Midterm Exam II	35%
Final Exam	45%
Assignments	10%

The first midterm exam is not optional. Failure to take this exam will result in a score of zero for the 10% allocated to the maximum of midterms I and II.

**Schedule of Exams:**

Midterm Exam I	Wednesday, October 4, 6:00pm to 7:30pm
Midterm Exam II	Wednesday, November 8, 6:00pm to 8:00pm
Final Exam	Tuesday, December 19, 6:00pm to 8:00pm

Please note that there will not be any make-up exams except as required by university policy.

**Regrading Policy:**

All regrade requests must be made in writing within one week of the day the exams are returned. Any exam submitted for regrading of a question can be subjected to a complete regrading.

**Office Hours:**

My weekly scheduled office hours will be on Tuesdays from 3:45 to 5:00 unless advised otherwise.

The course teaching assistants will also have office hours scheduled throughout the week. Their schedule will be posted on the course web page.

## Course Outline:

### I. Introduction.

*Readings:* RWJ Chapters 1\* and 2\*.  
[BMA Chapter 1.]

### II. The Time Value of Money and NPV.

*Readings:* RWJ Chapters 3\*, 4, and 5.  
[BMA Chapters 2 – 4.]

### III. Principles of Capital Budgeting.

*Readings:* RWJ Chapters 6, 7, and 8\*.  
[BMA Chapters 5 – 6.]

### IV. Uncertainty and Financial Decisions.

*Readings:* RWJ Chapters 9, 10, and 11\*.  
[BMA Chapters 7, 8.]

### V. Capital Budgeting Under Uncertainty.

*Readings:* RWJ Chapter 12.  
[BMA Chapter 9.]

### VI. Market Efficiency.

*Readings:* RWJ Chapter 13.  
[BMA Chapter 13.]

### VII. Corporate Financing and Capital Structure.

*Readings:* RWJ Chapters 14, 15, and 16.  
[BMA Chapters 14, 15, 17, and 18.]

### VIII. Valuation and Capital Budgeting.

*Readings:* RWJ Chapters 17.  
[BMA chapter 19.]

### IX. Dividend Policy.

*Readings:* RWJ Chapter 18.  
[BMA Chapter 16.]

**Optional Topic** (Most likely this topic will not be covered in class.):

X. Valuation of Options.

*Readings:* RWJ Chapters 22\* and 23\*.  
[BMA Chapters 20 – 22.]

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\* Optional reading.

Additional readings will be distributed in class.