

UNIVERSITY OF PENNSYLVANIA  
The Wharton School

Finance 100  
Fall 2012

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 area of corporate finance. 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) principles of capital budgeting; (4) uncertainty and the tradeoff between risk and return; (5) corporate financing decisions; (6) capital budgeting decisions under uncertainty; and (7) dividend policy.

### Course Materials:

#### Required:

S. Ross, R. Westerfield and J. Jaffe, Corporate Finance, 10<sup>th</sup> Edition, McGraw-Hill Irwin, 2013. (This new edition of Corporate Finance will be available for purchase from the bookstore at the beginning of October. Chapters that relate to material covered in class in the month of September will be provided online.)

#### or

S. Ross, R. Westerfield and J. Jaffe, Corporate Finance, 9<sup>th</sup> Edition, McGraw-Hill Irwin, 2010. (Referred to as RWJ in course outline.)

Sample exams with solutions (available online).

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

#### Optional:

Solutions Manual for Corporate Finance (10<sup>th</sup> Edition) (available online)

**OR**

J. Smolira, Solutions Manual to accompany Corporate Finance (9<sup>th</sup> edition), McGraw-Hill Irwin, 2010. (This solutions manual is optional but strongly recommended. It is available bundled with the textbook at the bookstore.)

Useful books for further reading --

R. Brealey, S. Myers, and F. Allen, Principles of Corporate Finance, 10<sup>th</sup> Edition, McGraw-Hill Irwin, 2011. (Referred to as BMA in course outline.)

T. Koller, M. Goedhart, and D. Wessels, Valuation: Measuring and Managing the Values of Companies (5<sup>th</sup> Edition), McKinsey and Company, 2010, published by John Wiley and Sons, Hoboken, New Jersey.

D. Kieso, J. Weygandt, and T. Warfield, Intermediate Accounting, John Wiley and Sons, 2012.

**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 3, 6:00 pm to 7:30 pm
Midterm Exam II	Wednesday, November 7, 6:00 pm to 8:00 pm
Final Exam	Tuesday, December 18, 6:00 pm to 8:00 pm

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:

[The BMA readings are optional. BMA chapter references are provided for those seeking further reading on the course material.]

### I. Introduction.

*Readings:* RWJ Chapters 1\*, 2\*, and 3\*  
[BMA Chapter 1]

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

*Readings:* RWJ Chapters 4, 8, and 9  
RWJ (8<sup>th</sup> edition) Appendix pages 5A-1 to 5A-3 (posted online)  
[BMA Chapters 2 – 4]

### III. Principles of Capital Budgeting.

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

### IV. Uncertainty and Financial Decisions.

*Readings:* RWJ Chapters 10, 11, and 12\*  
[BMA Chapters 7 – 8]

### V. Capital Budgeting Under Uncertainty.

*Readings:* RWJ Chapter 13  
[BMA Chapter 9]

### VI. Market Efficiency.

*Readings:* RWJ Chapter 14  
[BMA Chapter 13]

VII. Corporate Financing and Capital Structure.

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

VIII. Valuation and Capital Budgeting.

*Readings:* RWJ Chapters 18  
[BMA chapter 19]

IX. Dividend Policy.

*Readings:* RWJ Chapter 19  
[BMA Chapter 16]

X. Valuation of Options. (Optional topic)

*Readings:* RWJ Chapters 22\* and 23\*  
[BMA Chapters 20 – 21]

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\* Optional reading.

Additional readings will be posted online or distributed in class.