

UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE 601

Fall 2004
Tu., Th., G06 JMHH
9, 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 via 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 and S. C. Myers, *Principles of Corporate Finance*, 7th edition (New York: McGraw Hill, 2002). (Referred to as BM below).

Selected Solutions and Study Guide Chapters to accompany Brealey and Myers' Principles of Corporate Finance, 7th edition (New York: McGraw Hill, 2002).

The latter is a special version of the study guide made for the course that also includes answers from the solutions manual for the questions at the end of the chapters in Brealey and Myers for Chapters 1-25. 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. Those of you with a limited exposure to finance may also find the following additional text useful.

J. Downes and J. E. Goodman, *Barron's Financial Guides: Dictionary of Finance and Investment Terms*, 6th edition (Barrons Educational Series, 2002).

The Bulk Pack for Quarter 1 can be purchased from Wharton Reprographics or downloaded from Webcafe or my website <http://finance.wharton.upenn.edu/~allenf> if you would prefer to print it out yourself. This contains problem sets, cases, example exams, and lecture notes for the first half of the course. The cost of handouts distributed in class will be billed at the end of the semester. 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 or equivalents will put you at a disadvantage in exams. They do not allow you to

enter formulas and the HP 12C is 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 such as a Palm Pilot will not be allowed. There will be a calculator review session on Friday, September 10. You will also need to know EXCEL at an elementary level in order to do the cases. There will be an EXCEL workshop on Friday, September 24 for those who are not familiar with it.

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. For those who show an exceptional improvement in performance in the final compared to the midterm (an increase of at least 20 percentiles in the class rankings or 20% in scores) the weights will be changed to 10% for the midterm and 60% for the final. Anybody obtaining 95% or more in the final will obtain a DS. 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.

QUARTER 1

Week 1:

Tu: 9/7

Section 1: Introduction

Read Ch. 1 BM

Section 2: The Objective Function for Corporations

Read Ch. 2 BM

Th: 9/9

Section 2 (cont.)

Week 2:

Tu: 9/14

PROBLEM SET 1 DUE

Section 3: Calculating Present Values

Read Ch. 3 BM

Th: 9/16

Section 4: The Valuation of Bonds and Stocks

Read Ch. 4 BM

Week 3:

Tu: 9/21

PROBLEM SET 2 DUE

Section 5: A Comparison of Investment Criteria

Read Ch. 5 BM

Th: 9/23	Section 5 (cont.) Section 6: Practical Aspects of the NPV Rule Read Ch. 6 BM
Week 4: Tu: 9/28	Section 6 (cont.)
Th: 9/30	PROBLEM SET 3 DUE Section 7: Measuring Risk Section 7(i): Statistics Review Section 7(ii): A Theory of Asset Pricing: Introduction
Week 5: Tu: 10/5	PEACH CASE DUE Section 7(iii): Mean-Standard Deviation Analysis Section 7(iv): Diversification and Beta Read Ch. 7 BM
Th: 10/7	Section 8: The Capital Asset Pricing Model Read Ch. 8 BM
Week 6: Tu: 10/12	Section 8 (cont.)
Th: 10/14	PROBLEM SET 4 DUE Section 9: Capital Budgeting and the CAPM Read Ch. 9 BM
Week 7: Tu 10/19 Th: 10/21	Exam Week for MBA Core – No class Exam week for MBA Core - No class
QUARTER 2	
Week 1: Tu: 10/26	Break - No class
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 BM
Th: 11/4	Section 10: Market Efficiency (cont.) Section 11: Issuing Securities

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