

**UNIVERSITY OF PENNSYLVANIA**  
**The Wharton School**

Finance 100  
Fall 2004

A. Craig MacKinlay  
3255 SH-DH

**CORPORATE FINANCE**

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**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. This bulk pack contains problem sets with solutions and sample exams. Material will also be distributed in class through out the term. A fee for this material will be billed through the bursar's office.

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, Solutions Manual for use with Corporate Finance (7<sup>th</sup> edition), McGraw-Hill Irwin, 2005. (Optional, but strongly recommended.)

R. A. Brealey and S. C. Myers, Principles of Corporate Finance, 7<sup>th</sup> Edition, McGraw-Hill Irwin, 2003. (Referred to as BM in course outline.)

**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 6, 6:00pm to 7:30pm
Midterm Exam II	Wednesday, November 10, 6:00pm to 8:00pm
Final Exam	Wednesday, December 15, 4:00pm to 6:00pm

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 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 through out the week. Their schedule will be distributed in class.

## Course Outline.

### I. Introduction.

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

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

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

### III. Principles of Capital Budgeting.

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

### IV. Uncertainty and Financial Decisions.

*Readings:* RWJ Chapters 9, 10, and 11\*.  
[BM Chapters 9, 10.]

### V. Capital Budgeting Under Uncertainty.

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

### VI. Market Efficiency.

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

### VII. Corporate Financing and Capital Structure.

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

### VIII. Valuation and Capital Budgeting.

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

### IX. Dividend Policy.

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

**Optional Topic.** (This topic will not be covered in class.)

X. Valuation of Options.

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

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\* Optional reading.

Additional readings will be distributed in class.