

**The Wharton School
University of Pennsylvania**

**FNCE 601 — Corporate Finance
Spring 2008**

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Office Hours: Tuesdays and Wednesdays: 4:30–6:00PM, Suite G21, Jon M. Huntsman Hall. Other hours by appointment. Teaching assistant hours will be posted on webCafe.

Objective

As the core course in the “micro-finance” area, this course serves two functions. First, it is an introduction to corporate finance and provides a framework for analyzing investment and financial decisions of corporations. The course also introduces certain topics in the investments area of finance that are considered essential for all business students. Lectures, readings, problems and cases offer an introduction to present value and interest rates, capital budgeting, asset valuation models, security market efficiency, dividend policy, capital structure and the cost of capital, and option pricing.

The focus is on fundamental principles of modern financial theory, so the approach is rigorous and analytical. Prerequisites are ACCT 620 or 621, MGEC 621 and STAT 621.

Course Materials

The following materials will be useful:

Text (Required): Brealey, Myers, and Allen, *Principles of Corporate Finance*, 9th edition (New York: McGraw-Hill/Irwin, 2008). (Referred to as **BMA** below.) (Bookstore)

Student Supplement (Recommended): Krishnan and Swensen, *Student Supplement to Accompany Corporate Finance*, 9th edition, (New York: McGraw-Hill, 2008).

(**Note:** This supplement will be available at the Bookstore by the middle of January. It includes a study guide and solutions manual for the textbook chapters we will cover this term. In the meantime, we have included the first four chapters of the separate Solutions Manual and Study Guide in the bulk pack.

Bulk Pack I (Required): Contains class notes and sample exams for Quarter 3 of the course (Wharton Reprographics). **Important: Please bring these notes to class every session.** The bulk pack for Quarter 4 will be available from Reprographics later in the term.

Handbook (Optional): Morris, *Standard and Poor's Guide to Money and Investing*, (New York: McGraw-Hill, 2005). (Bookstore)

The cost of handouts distributed in class is not included in the cost of the bulk pack and will be billed separately at the end of the semester. While the exact number of handouts is to be determined, this charge will not exceed \$10 per student.

Requirements

Grades will be given at the end of the semester, and will be based on the following:

Midterm exam (Thursday, February 28, 6:00-8:00PM)	35%
Final exam (Wednesday, May 7, 3:00-5:00PM)	45%
Problem Sets	10%
Cases	10%

There will be four problem sets. All are required, with each counting for 2.5 points toward the course grade.

Problem Set	Date Posted on WebCafe	Date Answers Due
1	Tue., January 15	Tue., January 22
2	Thu., February 14	Thu., February 21
3	Thu., March 27	Thu., April 3
4	Thu., April 10	Thu., April 17

The problem sets and solutions will be posted on the course webCafe:

<https://webcafe.wharton.upenn.edu/eRoom/fnce/601-sp08-1>,

which can also be accessed via SPIKE (Course Materials\Finance\webCafe\FNCE 601). As each problem set is posted, print out a copy of the problem set, ***write up your own solutions to these questions***, and hand in your answers in class on the due date. ***Late assignments will not be accepted.*** Graded assignments will be returned to the Huntsman Hall mailfolders within a week of the due date, and solutions will then be posted on the webCafe. For non-Wharton students, I will bring graded assignments to class once these are available.

There are also two case writeups for the course, one in each quarter. Each will count for five points. Please note the due dates for these assignments on the schedule below.

I encourage you to discuss with classmates the ideas involved in the problem sets and cases. However, ***for the problem sets each student must compose and submit his/her own individual set of answers. In writing up the cases, as discussed in the "Case Preparation" section on Page 5 below, students may work alone or with one classmate.***

Please also note that, in accord with the guidelines published by Wharton Graduate, there will be ***no rescheduling of exams to accommodate job interviewing, personal travel, etc.*** If an emergency or illness should force you to miss an exam, you must contact me **before** the test is given. You will be allowed to take a makeup exam only if you have a physician's explanation for your absence.

Course exams are "open-book." Calculators will be necessary. No laptop computers, please.

Calculators and Spreadsheets

You will need a calculator that is capable of financial functions such as Present Value, Internal Rate of Return, etc. The recommended calculator is an HP 17bII+. Older equivalent models such as the HP 17BII or 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. More advanced calculators, or anything with download capabilities, cannot be used.

A brief “manual” (Calculator Review 17bII+.ppt) describing the calculator functions you’ll need for the course is posted on the class webCafe under Course Materials. Please work through that outline by the end of the first week of class. It is worth investing the time required to learn the efficient use of your calculator in the first week of the term. You’ll also be grateful for this knowledge during exams.

In addition, you should use the course as an opportunity to learn the basics of a spreadsheet program such as EXCEL. You will not need spreadsheet facility to fulfill the course requirements. A brief introduction to Excel is also available under Course Materials on webCafe.

Course Information

Regular E-Mail Updates: I will be sending out regular email messages to the class giving administrative details. It is very important, therefore, that you check your email at least once every 48 hours. As a test, I sent email #1 (attached as the final page of this outline) to you on Thursday, January 3. If you did not receive this message, it is imperative that you email me (see address above) by Wednesday, January 9, to give me a working email address.

webCafe: We will make items such as problem sets and solutions available via the webCafe for the course.

Course Message Board: As mentioned above, the teaching assistants and I will hold office hours each week. In addition, you are welcome to post questions or comments on the “Discussions” section of the webCafe. I have set up folders in that area for each of the topics to be covered in the course. The TAs and I will answer questions posted there on a regular basis. Please feel free to choose the channel (in-person office hours or message board) of working with us that is more convenient for you.

Session Schedule

Session	Topic	Assignment
1/8, 1/10	Net Present Value and Present Value Basics <ul style="list-style-type: none"> • Foundations of NPV rule • Compounding, discounting • Perpetuities, annuities • Nominal vs. real interest rates 	Chs 1-3
1/15, 1/17	Pricing Bonds and Stocks <ul style="list-style-type: none"> • Coupon, face value • Current yield and yield to maturity • Dividend growth model 	Ch 4; Ch 25: pp. 669-677 Ch 5
1/22	** Problem Set #1 due ** (posted by 1/15)	
1/22, 1/24	Capital Budgeting <ul style="list-style-type: none"> • Alternative project selection criteria • Identifying relevant cash flows • Sensitivity analysis 	Chs 6, 7
INTERVIEW WEEKS (no class) January 29, 31, February 5, 7		
2/12	Capital Budgeting (cont'd)	
2/14	Modeling Risk in Financial Decisions I	Ch 8
2/19	** Case 1: Eli Lilly & Company **	(posted by 2/12 to webCafe)
2/21	** Problem Set #2 due ** (posted by 2/14)	
2/21, 2/26	Modeling Risk in Financial Decisions I (cont'd) <ul style="list-style-type: none"> • Portfolio risk and return • Diversification and efficient portfolios • The Capital Asset Pricing Model: Implications and tests of validity 	Chs 8, 9
No class on Thursday, February 28 (prepare for Midterm Exam)		
MIDTERM EXAM	Thursday, February 28, 6:00 – 8:00PM [Exam covers material through Thursday, 2/21]	(See Bulk Pack Section II for Sample Exams)

QUARTER 3 FINALS WEEK (no class)	March 4 & 6
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SPRING BREAK	March 11 & 13
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FNCE 601 Class Resumes for Quarter 4 on Tuesday, March 18

FINAL EXAM	Wednesday, May 7, 3:00-5:00PM
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CASE PREPARATION

I encourage members of the class to work in pairs to prepare the cases. **Groups of more than two are unacceptable. Grades for individuals working in groups of more than two people will be pro-rated accordingly.** You may work alone if you prefer.

Please abide by **standard ethical practices** as you complete the case assignments. Your group may discuss conceptual issues with other groups. However, any computer work (spreadsheets, etc.) and explanatory text that you hand in for grading must be created by your group.

WRITTEN SOLUTION

For each case, I will ask a few essential questions (see Bulk Pack or webCafe for case and questions). Each group must prepare, and hand in for grading, a written answer to these questions. This solution should be no more than one page in length. It should read like an executive summary, and include:

- 1) a paragraph outlining the methodology you applied to make your decision, and
- 2) a paragraph defending your approach and solution. In this section, you should discuss any additional assumptions you need to reach your conclusion, as well as factors that cannot be quantified but may affect the appropriateness of the decision.

In addition to this one-page summary, you may include whatever exhibits you feel are necessary to support your recommendation.

CLASS DISCUSSION

I will collect one copy of the written solutions from each group at the beginning of the class during which we'll discuss the case. **Please make an additional copy of your work and bring it along to class** to use for reference during the case discussion.

Textbook Problems (Additional Practice)

You are required to submit answers to four problem sets that will be assigned during the semester. Many students seek additional problems to test their understanding of material presented. While you will not be asked to hand in answers to these questions, you may want to solve problems in the textbook for additional practice.

There are three sets of questions at the end of each chapter in the text: Quiz (labeled 'Q' below), Practice (labeled 'P') and Challenge (labeled 'C'). As you complete the assigned reading, I would recommend that you work the following problems to check your understanding of the material. The solutions to the “Quiz” questions can be found at the back of the Brealey, Myers and Allen text. The answers to the “Practice” and “Challenge” are given in the Student Supplement for the text that will be available at the Bookstore toward the end of January. Until that time, you can find these solutions in Section III of the bulk pack.

<u>Chapter</u>	<u>BMA Problems (9th Edition)</u>
2	P: 9,11,12,17
3	Q: 2,5,6,8,9,11; P: 13,14,18,19,22,23,25,31 C: 37
4	P: 14,15,17
5	P: 14,15,21,25,26,29,30
6	Q: 3-6; P: 8,9,11-13
7	Q: 1,8,9; P: 13,14,17,24,26
8	Q: 4,7,8; P: 18-22 ; C: 25
9	Q: 1,4,6,7; P: 9,14,15,18,20,22

Email Sent Thursday, January 3

Hello, and welcome back to school and to FNCE 601, Corporate Finance. I hope you had a relaxing break.

I will be communicating with you regularly via e-mail during the semester. Please check for messages from me at least every 48 hours so you don't miss any important updates.

We will be meeting for our first class on Tuesday, January 8. At that session, I will distribute and discuss the syllabus for the course. I will also cover the notes for the first class, which are included in the bulk pack. You should therefore make sure to purchase the bulk pack at Wharton Reprographics BEFORE Tuesday's class, and bring it along to that first session. In the event you are unable to get to Repro, please print the file "PV1.pdf" from the Course Materials section of the course webCafe:

<https://webcafe.wharton.upenn.edu/eRoom/fnce/601-sp08-1>

This site can also be reached via SPIKE (Course Materials\Finance\webCafe\FNCE 601). Class notes for the rest of Quarter 3 are included in the course pack. You should bring your class notes to each of our sessions since we'll use these to record what we cover in class.

The course pack also contains sample midterm exams from previous semesters. Wharton Reprographics will also have the course pack for the 2nd half of the course (Quarter 4) later in the semester.

Before our first class on Tuesday, you should try to read as much as you can of the first three chapters of the text for the course: Brealey, Myers and Allen, Principles of Corporate Finance (9th edition). This is available at the university bookstore, and is required. By the week of January 14th, you will also be able to purchase the (recommended) special supplement to the text, which includes a study guide and solutions to textbook problems for the chapters we will cover.

For those of you who are new to the field of finance, I would also recommend that you buy the handbook entitled, Standard and Poor's Guide to Money and Investing. This is an introduction to bonds, stocks and other securities. This optional text is also available at the bookstore.

Finally, you will also need a financial calculator for the course. The recommended calculator is an HP 17bII+. If you already own an HP 17BII or 19BII, that is also fine for our purposes. **You should purchase such a calculator and master its functionality before the end of the first week of class.** To help get you up to speed, a brief "manual" (Calculator Review 17bII+.ppt) describing the calculator functions you'll need for the course is posted on the class webCafe. Please work through that outline by the end of the first week of class.

I think that's all you need for now. Please feel free to e-mail or call me at (215) 898-1439 at any time. I look forward to meeting you next Tuesday.

Howie Kaufold