

# Course Outline (1st half)

Corporate Finance, Sections 001 and 002

## 1. Introduction

### (a) Activities of the corporation

*Readings:* 1\*, 2\*

### (b) The NPV rule

*Readings:* 3

## 2. The Time Value of Money and NPV

### (a) Present Value Concepts

#### i. Present value for single payments

*Readings:* 4.1, 4.2

*Problems:* PS1 2

#### ii. Annuities and growing annuities; perpetuities and growing perpetuities.

*Readings:* 4.4

*Problems:* PS1 3, 4; RWJ 4.11, 4.25, 4.42

#### iii. Compounding within a year; Effective annual interest rate

*Readings:* 4.3

*Problems:* PS1 1, 5; RWJ 4.19

### (b) Applications of Present Value

#### i. Valuing bonds

##### A. Valuation of discount (zero-coupon) bonds, returns on discount bonds

*Readings:* 5.1, 5.2 p. 102-103

*Problems:* PS2 1,3; RWJ 4.8, 5.8

**B. Valuation of annual coupon bonds, returns on coupon bonds**

*Readings:* 5.2 p. 103-105

*Problems:* PS2 2, 4

**C. Semi-annual coupon bonds.**

*Readings:* 5.3

*Problems:* PS3 1; RWJ 5.5, 5.6, 5.10

**D. The yield curve and forward rates**

*Readings:* Appendix 5A p. 130-136, 137-139\*

*Problems:* PS3 2, 3; RWJ A.2, A.4

**ii. Valuing common stock**

**A. Stocks as a growing perpetuity**

*Readings:* 5.4 p. 108-110

*Problems:* RWJ 5.17

**B. Differential growth**

*Readings:* 5.4 p. 111

*Problems:* RWJ 5.20, 5.23

**C. Growth of dividends and the plowback ratio**

*Readings:* 5.5

*Problems:* PS4 1, 2; RWJ 5.26

**D. Net present value of growth opportunities**

*Readings:* 5.6, 5.7, 5.8

*Problems:* PS5 1; RWJ 5.29, 5.30

### 3. Principles of Capital Budgeting

#### (a) NPV and alternatives

- i. Definition and pitfalls of the payback period rule and the average accounting return

*Readings:* 6.1 – 6.4

- ii. Definition and pitfalls of IRR

*Readings:* 6.5, 6.6

*Problems:* PS5 2; RWJ 6.10, 6.12, 6.19

#### (b) Applying NPV to capital budgeting

- i. Incremental cash flows; Depreciation and taxes

*Readings:* 7.1, 7.2

*Problems:* RWJ 7.3

- ii. Inflation

*Readings:* 7.3

*Problems:* RWJ 7.13, 7.17

- iii. Evaluating investments of unequal lives

*Readings:* 7.4

*Problems:* RWJ 7.26, 7.33

Notes:

- (\*) Denotes optional readings
- All readings are from Ross, Westerfield, Jaffe
- Required problems are denoted by the problem set number and number within the problem set (e.g. PS1 2 means the second problem in problem set 1)
- Suggested problems are denoted by RWJ, and then the problem number (e.g. RWJ 4.11 refers to problem 11 in Chapter 4 of RWJ). These are from the revised RWJ problems on the website. They are the same as the suggested problems on the problem sets.