

# Course Outline (2nd half)

Corporate Finance, Sections 001 and 002

## 1. Portfolio theory

### (a) Definitions of returns

*Readings:* RWJ 9.1, 9.2, H01

*Problems:* PS6 1; RWJ 9.2, 9.3

### (b) Expected returns and risk

*Readings:* RWJ 9.3–9.5, 10.1, 10.2, H02

*Problems:* RWJ 9.13, 9.15, 9.19, 10.3

### (c) Portfolio allocation with two risky assets

*Readings:* RWJ 10.3, 10.4, H03\*, H04

*Problems:* PS6 2, PS7 1; RWJ 10.4, 10.9, 10.10, 10.12, 10.14

### (d) Portfolio allocation with multiple risky assets

*Readings:* RWJ 10.5, 10.6, H05\*, H06

### (e) Portfolio allocation with a riskless asset and multiple risky assets

*Readings:* RWJ 10.7, H07

*Problems:* PS7 2, 3

## 2. Capital Asset Pricing Model

*Readings:* RWJ 10.8, 10.9, H08, H08a, H09\*

*Problems:* PS8 1, 2; RWJ 10.23, 10.26, 10.33, 10.35

## 3. Capital Budgeting Under Uncertainty

*Readings:* RWJ 12.1–12.5, 12.6\*, H10

*Problems:* RWJ 12.1, 12.9, 12.11, 12.15

## 4. Market Efficiency

*Readings:* RWJ 13, H11, H12\*

## 5. Capital Structure

(a) **Modigliani and Miller propositions, No taxes or frictions**

*Readings:* RWJ 15.1–15.4, H13

*Problems:* PS9 1, 2, 3

(b) **Modigliani and Miller propositions with corporate taxes**

*Readings:* RWJ 15.5, H14

(c) **Limits to the use of debt: Cost of financial distress**

*Readings:* RWJ 16.1, 16.2, 16.3\*, 16.4, H15\*

(d) **Valuation and capital budgeting with leverage**

*Readings:* RWJ 17.1\*, 17.2\*, 17.3, 17.4\*, 17.5\*, H16

*Problems:* H14 examples

## 6. Options

(a) **Definitions and payoffs at expiration of calls and puts**

*Readings:* RWJ 22.1–22.4, H17, H18\*

*Problems:* PS10 1

(b) **Introduction to valuation: Put-call parity and the minimum value of a call option**

*Readings:* RWJ 22.5\*, 22.6, 22.7 (p.620-621), H19, H20\*

*Problems:* PS10 2

Notes:

- (\*) Denotes optional readings
- All readings are from Ross, Westerfield, Jaffe (RWJ) or Handouts (H)
- 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.