

FNCE 238/738: Funding Investments

Prof. Stephan Dieckmann, Fall 2008

Overview

The objective of this course is to familiarize students with different techniques and securities available to corporations for financing investments. The course will focus on the design, the issuing process, and the pricing of these securities. The securities covered include corporate bonds, loans, commercial paper, and equity, as well as recent financial innovations. Our discussion will include topics such as the use of embedded options, covenants, origination, the pricing of default risk, the resolution of distress, securitization, hybrid securities and credit derivatives, and the use of special purpose vehicles.

Course Material

The course material will be available for download via the web café site at <http://webcafe.wharton.upenn.edu>. This includes lecture notes, homework assignments, solution keys, and relevant links. This is an almost paperless course, and there is no textbook or bulk pack. I will assign course readings to complement the material in the lecture notes. These readings are either available to you through the web café site, or publicly available through the Internet, or they are available through electronic journals via library access.

Course Mechanics

The course is in lecture format. We meet 25 times in class during this semester, of which 23 are lectures and case discussions, and 2 in-class exams. Class participation is encouraged and can affect your grade at the margin.

Grades

There are two mandatory mid-term exams. The exams will be given in-class on October 16 and November 25, 2008. You must come to the section you are registered for. Each exam will count for $1/3^{\text{rd}}$ of your final grade. The remaining $1/3^{\text{rd}}$ of your grade will be determined by written assignments. There are no verbal appeals of grades. Please provide a written statement to us as to why there is a problem. All re-grade requests must be submitted within one week after handing back the exams or assignments.

Homework and Cases

I will assign 6 homeworks and 4 cases, all of which require a write-up. The due dates are indicated on the course schedule, and write-ups are to be handed in at the beginning of class in hardcopy format. Of those 10 assignments I will drop the lowest grade, and the remaining 9 will carry equal-weight. Solution keys to homeworks will be posted on the web café site.

Groups

All homeworks and cases are to be solved in groups of three, four, or five students, and to be handed in as one write-up per group. Once formed, groups may not be changed during the semester. I encourage you to work on those assignments on your own, or with your group, from scratch; they are a good preparation for the exams. You should not consult any material from previous years of this class.

Prerequisites

It is assumed that you know the material from an introductory Finance class (FNCE 100/601), basic statistics and mathematics, and that you know how to work with a spreadsheet package, e.g. Excel.

Overlap with Other Courses

Some discussion of bond pricing will overlap with Fixed Income, and some issues about capital structure and option pricing will overlap with Corporate Finance and Derivative Securities. However, this course is designed to be complementary to the classes Advanced Corporate Finance and Fixed Income.

Contact Information

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Office hours are Wednesday, 1.30 – 3.00 pm. Please make an appointment by email if you like to meet with me outside of office hours. Teaching assistants are

1. tbd (Monday)
2. tbd (Tuesday)
3. tbd (Thursday)
4. tbd (Friday)

The times and rooms for TA availability will be announced on the web café site.

August 24, 2008

Tentative Schedule and Course Content

Date	Class #	Content	Due
September 4	1	Introduction and Overview of Course	
September 9	2	Bond Mathematics Review and Treasury Debt Market	
September 11	3	Forward Contracts and Interest Rate Swaps	hw 1
September 16	4	Funding Strategies	
September 18	5	Option Pricing and Valuation of Corporate Securities	hw 2
September 23	6	Callable Debt and Interest Rate Options	
September 25	7	Funding Education: Student Educational Loan Fund, Inc.	case 1
September 30	8	Some Effects of Indenture Provisions	
October 2	9	Chrysler's Warrants	case 2
October 7	10	Corporate Debt Securities: Bonds, Medium Term Notes and Commercial Paper	
October 9	11	Bankruptcy Process in the United States and International Comparisons	hw 3
October 14		Fall Break, no class	
October 16	12	1 st Exam in class	
October 21	13	Bond Contracts, Origination and Syndication Process	
October 23	14	Pricing of Default Risk: The Structural and the Reduced Form Approach	
October 28	15	Measurement of the Credit Spread and its Components	hw 4
October 30	16	Defaulted Debt and the Resolution of Claims in Distress	
November 4	17	Convertible Debt and Alternatives to Straight Debt	hw 5
November 6	18	Underwriting and Raising Equity	
November 11	19	Securitization and Tranching	hw 6
November 13	20	Risk and Reward Profile of Structured Financial Instruments	
November 18	21	Credit Derivatives	
November 20	22	First American Bank: Credit Default Swaps	case 3
November 25	23	2 nd Exam in class	
November 27		Thanksgiving Holiday, no class	
December 2	24	Funding a SPV: The Case of a Catastrophe Bond.	
December 4	25	The Enron Odyssey: The Special Purpose of SPEs	case 4