

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

Finance 100  
Fall 2010

A. Craig MacKinlay  
3255 SH-DH

## **CORPORATE FINANCE**

---

**Course Web Page:**     <http://finance.wharton.upenn.edu/~acmack>

### **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) principles of capital budgeting; (4) uncertainty and the tradeoff between risk and return; (5) corporate financing and dividend policy decisions; and (6) capital budgeting decisions under uncertainty.

### **Course Materials:**

#### **Required:**

S. Ross, R. Westerfield and J. Jaffe, Corporate Finance, 9<sup>th</sup> Edition, McGraw-Hill Irwin, 2010. (Referred to as RWJ in course outline.)

Sample exams with solutions (available online).

A scientific or business calculator. (It will be necessary for your calculator to have a  $x^y$  function.)

#### **Optional:**

J. Smolira, Solutions Manual to accompany Corporate Finance (9<sup>th</sup> edition), McGraw-Hill Irwin, 2010. (This solutions manual is optional but strongly recommended. It is available bundled with the textbook at the bookstore.)

R. Brealey, S. Myers, and F. Allen, Principles of Corporate Finance, 10<sup>th</sup> Edition, McGraw-Hill Irwin, 2011. (Referred to as BMA in course outline.)

T. Koller, M. Goedhart, and D. Wessels, Valuation: Measuring and Managing the Values of Companies (5<sup>th</sup> Edition), McKinsey and Company, 2010, published by John Wiley and Sons, Hoboken, New Jersey.

**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, 6:00 pm to 7:30 pm
Midterm Exam II	Wednesday, November 10, 6:00 pm to 8:00 pm
Final Exam	Thursday, December 16, 6:00 pm to 8:00 pm

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 weekly scheduled 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 throughout the week. Their schedule will be posted on the course web page.

**Course Outline:****I. Introduction.**

*Readings:* RWJ Chapters 1\*, 2\*, and 3\*  
[BMA Chapter 1]

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

*Readings:* RWJ Chapters 4, 8, and 9  
RWJ (8<sup>th</sup> edition) Appendix pages 5A-1 to 5A-3 (posted online)  
[BMA Chapters 2 – 4]

**III. Principles of Capital Budgeting.**

*Readings:* RWJ Chapters 5, 6, and 7\*  
[BMA Chapters 5 – 6]

**IV. Uncertainty and Financial Decisions.**

*Readings:* RWJ Chapters 10, 11, and 12\*  
[BMA Chapters 7 – 8]

**V. Capital Budgeting Under Uncertainty.**

*Readings:* RWJ Chapter 13  
[BMA Chapter 9]

**VI. Market Efficiency.**

*Readings:* RWJ Chapter 14  
[BMA Chapter 13]

**VII. Corporate Financing and Capital Structure.**

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

**VIII. Valuation and Capital Budgeting.**

*Readings:* RWJ Chapters 18  
[BMA chapter 19]

**IX. Dividend Policy.**

*Readings:* RWJ Chapter 19  
[BMA Chapter 16]

**X. Valuation of Options. (Optional topic)**

*Readings:* RWJ Chapters 22\* and 23\*  
[BMA Chapters 20 – 21]

---

\* Optional reading.

Additional readings will be posted online or distributed in class.

**Course Readings for 8<sup>th</sup> (2008) Edition of Corporate Finance by RWJ:**

Note: While the overlap is extensive, the 8<sup>th</sup> (2008) edition of the course textbook does not have the exactly same topic coverage as the 9<sup>th</sup> (2010) edition. For the convenience of those who choose to use the old edition, I provide the relevant readings. However, it should be noted that in class I will be referring to the 9<sup>th</sup> edition, and therefore, the 8<sup>th</sup> edition is not a perfect substitute.

**I. Introduction.**

*Readings:* RWJ Chapters 1\*, 2\*, and 3\*.

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

*Readings:* RWJ Chapters 4, and 5 (including Appendix pages 5A-1 to 5A-3).

**III. Principles of Capital Budgeting.**

*Readings:* RWJ Chapters 6, 7, and 8\*.

**IV. Uncertainty and Financial Decisions.**

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

**V. Capital Budgeting Under Uncertainty.**

*Readings:* RWJ Chapter 12.

**VI. Market Efficiency.**

*Readings:* RWJ Chapter 13.

**VII. Corporate Financing and Capital Structure.**

*Readings:* RWJ Chapters 14, 15, and 16.

**VIII. Valuation and Capital Budgeting.**

*Readings:* RWJ Chapters 17

**IX. Dividend Policy.**

*Readings:* RWJ Chapter 18.

**X. Valuation of Options. (Optional topic)**

*Readings:* RWJ Chapters 22 and 23\*.

---

\* Optional reading.