

UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE621
ACCELERATED CORPORATE FINANCE
COURSE SYLLABUS

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Office Hours:

- Tuesday, 3:30pm to 5:00pm.
- Also by appointment.

Course Description

This course is intended for students with prior knowledge of finance or with strong analytical backgrounds. Together with the pre-term preparation course (FNCE604), it forms the foundation for subsequent courses in corporate finance, corporate valuation, investments, and financial derivatives. Its purpose is to develop a framework for analyzing a firm's investment and financing decisions. The course will start where FNCE604 ends. More precisely, it will provide an introduction to capital budgeting techniques under uncertainty, asset valuation, the operation and efficiency of capital markets, the optimal capital structure and dividend policy of the firm, and options. In short, it will cover all the topics of a typical semester-long finance introduction class in six weeks.¹

The course assumes that students are familiar with the material covered in FNCE604. As a result, it is only available to those students who successfully passed the Finance Placement Exam at the end of the pre-term, or waived the core by credentials. In order to cover everything in a condensed time period, the course workload and lecture pace will be intense throughout and students taking this course should be prepared for this.

Since the emphasis is on the fundamental concepts underlying modern finance, the approach will be analytical and rigorous, and requires familiarity with accounting, mathematical and statistical tools. This "academic" approach is necessary to provide students with a strong foundation that they can then apply to the (more applied) elective courses at Wharton.

Prerequisites

The prerequisite for this course is a satisfactory performance (as judged by the instructor) in the *Finance Placement Exam*, which is offered at the end of the pre-term. The typical candidates for passing this Finance Placement Exam are students with prior course or practical knowledge of financial analysis, and students with a strong analytical background (e.g., students with prior degrees in engineering, physics, mathematics, or statistics). On the first day of class, students are

¹Of course, since FNCE604 has already covered about 30-35% of the material studied in a typical finance introduction class, the pace of FNCE621 will effectively be about 35-40% faster than that of FNCE601.

expected to be familiar with the material covered in the pre-term course (FNCE604). No time will be spent reviewing this material.

The course makes use of mathematical and statistical manipulations at the level taught in pre-term statistics courses. The first section of the course notes (section 3.1.1) is a review of statistics material that will be extensively used throughout the course. Students are expected to have mastered the material from this section prior to the course's first lecture, and very little time will be spent on it in class.

Course Material

The following textbook and special study guide are highly recommended for FNCE621 (they are required for FNCE601). They can be obtained together at a discounted price at the Penn Bookstore (36th and Walnut).

- Brealey, Richard A., Stewart C. Myers, and Franklin Allen, *Principles of Corporate Finance*, 10th edition (McGraw-Hill, New York, 2010). (Referred to as BMA below)
- *Student Supplement to accompany Brealey, Myers, and Allen's Principles of Corporate Finance*, 10th edition (McGraw-Hill, New York, 2010).

The book is particularly useful for (a) simpler problems (to ease you into the more complex problem sets that I will assign separately), and (b) as an additional source for material that you may have found challenging when taught in class. The book is also useful for many finance electives at Wharton.

Another excellent reference which I highly recommend for this course is the following textbook. It is available at popular online bookstores. In fact, my lecture notes will often refer to this textbook.

Berk, Jonathan, and Peter DeMarzo, *Corporate Finance*, 2nd edition (Prentice Hall, Boston, 2010). (Referred to as BD below)

The reason I designate these books as “highly recommended” rather than “required” is that students in the past have been able to do well in the course just by reading the lecture notes and solving the course's various problem sets, since they are comprehensive. The problems that I assign separately are more complicated than those in BMA and a fairer indication of the level of the problems in the exam.

The rest of the material for the course will only be made available electronically. In particular, my notes for every lecture will be available on webCafé at least one day in advance (and often earlier than that). It is your responsibility to bring a printed or electronic copy with you in class. Additional materials will also be made available on webCafé as the course progresses. They will include problem sets (and their solutions), practice exams (and their solutions), spreadsheets, and other useful handouts. I will make sure to alert you when these materials become available.

Finally, to give you an idea of how the concepts developed in class can be applied to the real world, we will cover a number of cases throughout the course. These cases will only be available on Study.Net (www.study.net), which is itself accessible through webCafé.

Grading: Exams, Homeworks, and Case Reports

The course grade will be based on one midterm exam, one final exam, four homeworks, and two case reports. Each homework will count for 10% of your final grade, and only your top two scores will be used (for a total of 20%). Likewise, the higher of your two case report scores will count for 10% of your final grade. The rest of your final grade (70%) will consist of your midterm exam and final exam weighted equally. However, if your score in the final exam is better than your score in the midterm exam, your final exam will be given twice the weight of your midterm exam. This is to reward students who improve over the course, and to allow those who underperform in the midterm to still do well overall.

I will standardize the medians of the midterm and final exams so that they are equalized. For example, if the midterm has a median of 90 and the final has a median of 80, I will subtract 5 from all midterm scores and add 5 to all final scores so that both exams have a median of 85. This is to ensure that a sufficient number of students end up with a better score in the final than the midterm and therefore benefit from the weighting system, even if the final turns out to be difficult. The grades on the homeworks and cases will not be adjusted.

The exam schedule will be as follows:

- Midterm exam: Monday, October 3, 6:00-8:00pm (to be confirmed).
- Final exam: Thursday, October 20, 6:00-8:00pm (to be confirmed).

The midterm exam will cover the material already discussed up to that point. The final exam is comprehensive, that is, it will cover the material for the entire course. The material covered in FNCE604 will *not* be examined again in FNCE621. Of course, we will still need to use some of the tools developed in that course (e.g., annuity formulas, NPV rule, free cash flows, etc.). The exact material covered in each of the two exams (and, for the final exam, the weights given to the first and second halves of the course) will be announced in class. Both exams will be *open-book* exams, i.e., you can bring your lecture notes, your book(s), and any other material that you find useful.

The homeworks and case reports should be prepared in teams of *three to five* students.² A team can consist of students from different sections of FNCE621, and you are free to change groups between each assignment. For the homeworks and case reports to be graded, **hard copies must be submitted in class, at the beginning of the lecture.**³ You can find the due date of each homework and case report (along with the problem sets from which the homeworks will be drawn) in the following table:

Assignment	Due Date	Case / Problems Sets
Homework #1	Tuesday, September 20	PS#6 & PS#7
Case Report #1	Tuesday, September 27	Cost of Capital at Ameritrade
Homework #2	Thursday, September 29	PS#8 & PS#9
Homework #3	Tuesday, October 11	PS#10 & PS#11
Case Report #2	Tuesday, October 18	Pinkerton A
Homework #4	Thursday, October 20	PS#12 & PS#13

²This is non-negotiable, so please refrain from asking permission for smaller or larger teams.

³If team members come from different sections, you should hand in your assignment in the earlier section.

Your letter grade for the course will be based on your ranking in the course (curve), and on performances/scores that I consider reasonable for this course.

Make-Up Exams

There will be **absolutely no make-up exam** (or any kind of rescheduling) for the midterm exam. If a student cannot take or even chooses not to take the midterm exam, the final exam will count for 70% of his/her final grade. There is no need to notify the instructor in that event.

Students who, for some reason, cannot attend the final exam will either be allowed to take the same exam early (upon signing an honor agreement that they will not disclose its content), or a different exam later, depending on the circumstances. To be clear, this will only be considered for **extraordinary circumstances**, as judged by the instructor. Note that the make-up exam may be somewhat harder to take into account the fact that students will get more preparation time, and that the TAs are not required (nor paid) to offer any help to students after the regular final exam. In short, students should consider asking to take the make-up final only in extreme situations.

If extraordinary circumstances prevent a student from attending the final exam, it is his/her responsibility to notify the instructor before the exam or, if impossible, as quickly as possible after the exam. Please note that, as per Wharton policy, traveling, interviews and job-related absences are not considered to be extraordinary circumstances. In the case of illness, a signed doctor's note must be provided.

Regrading Policy

Regrade requests for the midterm and final exams must be made within one week after the graded exams are distributed back to students. All such requests must be made **in writing**. Hard copies of the exam and the request will then be forwarded to the TA who graded the question(s) to be regraded. **The TA's decision is final and may not be appealed.** In making your requests, keep in mind that the whole exam is potentially subject to regrading.

Semester Deadlines

Students will be allowed to drop the course at any time on or before October 19, which is one day before the final exam. It is also before the midterm exam in FNCE601, allowing students to transfer if necessary. Since the problem sets and cases are different between the two classes, the grades from the FNCE621 assignments will not be transferred over. Instead, for the missed FNCE601 assignments, the transferring students will have more weight put on their exams in that course.

Class Etiquette and Code of Conduct

I do not grade attendance nor participation as I trust students to attend and contribute where appropriate. Particularly for an accelerated class, it is essential to (a) attend class in order to absorb the material, and (b) ask questions if anything in the lecture is unclear.

Students should attend the section of the class for which they are registered. In the case of an unavoidable conflict, students can attend another of my sections without notifying me. If it is impossible to make any section on a given day, you may miss class without notifying me, and are trusted to catch up on the material in your own time.

While I am flexible regarding the above, I expect classroom conduct to be on a high level. Students should arrive on time for class and remain until the class is completed. **During class, it is not acceptable to use cell phones or send text messages, leave temporarily to get coffee or make a call, do other work, or use laptop/tablet computers for any reason other than to take notes.**

Although it should go without saying, I make clear that I expect you to adhere to the school's code of academic conduct (www.upenn.edu/academicintegrity/ai_codeofacademicintegrity.html). In particular, the use of past problem set solutions or past exams (except when distributed by the instructor) is expressly forbidden. Any violation of this code, such as cheating in any form, will be treated with severity.

Teaching Assistants and Review Sessions

Several 2nd-year MBA students who have done well in FNCE621 will be assisting me in this course. Their names, functions and schedules will be posted on webCafé and announced in class.

Preparing for Classes

The material for this course needs to be absorbed consistently. As the course progresses, students should work on the homework problems, as well as on the additional problems from the problem sets and textbook that I will recommend. All these problems are *essential* for a full understanding of the material covered in the course. In fact, the two exams will systematically include questions that are very similar to the recommended problems.

Students are also encouraged to read in the BMA and/or BD textbooks the chapters/sections relevant to the material covered in class. To facilitate this process (and your planning), the lecture notes contain “checkpoints” that will guide you through the relevant readings and problems.

WebCafé

The course website at Wharton webCafé contains the material for FNCE621 as well as the most updated information and announcements for the course. This website is the information center for the course. Please check the course website regularly.

In particular, it is most efficient to ask questions (either on course material or on administrative items) on the Discussions section of webCafé rather than emailing the TAs and instructor. This means that all students can read our answers, saving the same question being asked multiple times. It also likely leads to a faster response since any of us can respond to the question. In fact, I reserve the right for me and the course's TAs to answer some emails that apply to more people than the student who sent it via webCafé's Discussions section.

Of course, questions regarding the assignments should not be posted on webCafé, as such questions may partly reveal your solutions. Instead, such questions should be emailed directly to the TAs.

Calculators and Computers

You will definitely need a calculator for the course (and the course's exams). Any calculator that has a y^x button will do. In fact, when constructing the exam, I will make sure that the people who do not have a fancy calculator are not at a disadvantage. If you do not have a calculator yet, consider buying an HP-17BII, HP-19BII, or their subsequent models, as they will probably be useful for other Wharton courses. Laptop computers, tablet computers, cell phones and any email-capable device will *not* be allowed for the exams.

Course Outline

The material for this course essentially corresponds to chapters 4, 7-9 and 13-21 of the BMA textbook. Below is the sequence of topics that will be covered in class, along with the relevant chapters/sections in BMA.

3. Investment Decisions (Under Uncertainty)

- 3.1 *The Valuation of Risky Cash Flows*
 - 3.1.1 Statistics Reminder
(see pre-term statistics courses)
 - 3.1.2 Statistics and Stock Portfolios
BMA, Chapter 7.
 - 3.1.3 The Capital Asset Pricing Model
BMA, Chapter 8.
 - 3.1.4 The Valuation of Stocks
BMA, Chapter 4.
- 3.2 *Capital Budgeting Under Uncertainty*
BMA, Chapter 9.

4. Financing Decisions

- 4.1 *Efficient Capital Markets: Theory and Evidence*
BMA, Chapter 13.
- 4.2 *An Overview of Long-Term Financing*
BMA, Chapters 14-15.
- 4.3 *Payout Policy*
BMA, Chapter 16.
- 4.4 *Debt Policy*
BMA, Chapters 17-18.

5. Financing and Investment

BMA, Chapter 19.

6. Options

- 6.1 *Understanding Options*
BMA, Chapter 20.
- 6.2 *The Valuation of Options*
BMA, Chapter 21.

Disclaimer

This document represents my current plans for the course at the time of writing, but is subject to change. Any changes will be communicated promptly and clearly to the students.

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	Materials							People				
FNCE 621 Accelerated Corporate Finance	Approved calculator	Laptop / other electronics ²	Summary sheet	Current book / class notes	Past notes / summaries	Past exams / assignments	Internet content / other outside materials	Learning team / approved work team	Other student(s) in same section	Student(s) in other sections (same term)	Wharton student not taking the class this term	Person outside of Wharton
Readings & Cases	A	A	A	A				W	W	W	D	
Graded Cases	A	A	A	A				W				
SABRE	A	A	A	A				W				
Final Exam Prep	A	A	A	A				W	W	W	D	
Final Exam	A ¹		A	A								
	A = Allowed material Shaded Cell = Not allowed							W = Allowed to work together D = Discussion of general concepts and procedures is allowed but no sharing of specific answers. Shaded Cell = Not allowed				
<u>Other comments:</u>												
¹ Any device that has email capability will not be allowed in exams. ² In class, the use of laptop and tablet computers is strictly limited to note-taking.												
<p>The information above covers many common situations but will not cover every circumstance. Remember: The Wharton MBA Code of Ethics that you accepted requires, among other things, that you represent yourself and your work honestly, don't try to gain unfair advantage over other students, follow the instructor's guidelines and respect confidentiality of your work and the work of others.</p> <p>Should you have questions, please contact your ethics liaison or professor.</p>												