

FNCE 611/614: Corporate Finance
Spring 2013
Syllabus

This course will be co-taught by Prof. Stephan Dieckmann and Prof. Howard Kaufold. Prof. Dieckmann teaches FNCE 614 and Quarter 3 of FNCE 611 (January 8 through February 26), and Prof. Kaufold teaches Quarter 4 of FNCE 611 (March 12 through April 23.)

Contact Information

Prof. Stephan Dieckmann
Office: 2252 SHDH
Phone: 215-898-4260
Email: sdieckma@wharton.upenn.edu
Office hours: Mondays and Wednesdays, 1:30 – 3:00

Prof. Howard Kaufold
Office: 300 Huntsman Hall
Phone: 215-898-1439
Email: kaufold@wharton.upenn.edu
Office hours: Tuesdays and Wednesdays, 4:30 – 6:00

Please make an appointment if you like to meet with us outside of office hours. Teaching Assistants and TA office hours will be posted on the Canvas course page.

Course Description

Investment and financing decisions are at the heart of corporate finance. A firm's financial manager, on one hand, is confronted with the universe of investment opportunities. She has to decide which real assets to purchase and projects to undertake, and which ones to forgo. On the other hand, she has to decide how to fund such investments, whether to raise cash from lenders or from shareholders, and what the best mix of debt and equity financing is. The goal of this introductory course is to provide students with the necessary skills to make such investment and financing decisions. Furthermore, this is the core course in the "micro-finance" area and serves as the basis for all more advanced courses.

You can think of this course having several parts. First, we study how to calculate the present value of cash flows, allowing us to determine the value of bonds and stocks, and to understand the basic rules for investment decisions. Second, a financial manager wants to know about a good measure of risk for their firm, and we formally introduce portfolio theory and the capital asset pricing model. Third, we give an overview of financing instruments, study how corporations issue securities, and discuss market efficiency. Fourth, we cover debt and payout policies and what ingredients to consider in the firm's capital structure decision. Last but not least, there will be an introduction to option markets.

Lectures

The course is in lecture format. Students enrolled in FNCE 614 meet 12 times, of which 11 are lectures and discussion plus 1 review session for the exam. Students enrolled in FNCE 611 meet 25 times, of which 23 are lectures and discussions plus 2 review sessions for the midterm and the final exam, respectively. Times are as follows:

FNCE 611/614 001 Tuesday/Thursday 10:30 - 11:50

FNCE 611/614 002 Tuesday/Thursday 12:00 - 1:20

FNCE 611/614 003 Tuesday/Thursday 3:00 - 4:20

All sections meet in 351 Steinberg Hall – Dietrich Hall. We do not meet during the dedicated interview period, i.e. there is no class on January 24, 29, and 31.

Course Materials

1. Lecture notes will be distributed electronically via Canvas. They will be made available to you prior to class and you might find it useful to bring them with you for taking notes. Please see the tentative course schedule below for the sequence of topics.

2. The required textbook for the course is:

Principles of Corporate Finance, 10th Edition, by Richard Brealey, Stewart Myers, and Franklin Allen, McGraw-Hill

The book's way of presenting the material sometimes differs from the way it is done in the lecture notes. It is a very good textbook and will be helpful in mastering the material, as well as a general reference on the subject of corporate finance. Our goal is to cover the material up to chapter 21, and we have indicated on the course schedule which book chapter corresponds to the respective topic. We will not explicitly cover part 3, i.e. chapters 10 – 12, in this introductory course, but you will have plenty of opportunities to study project analysis and agency problems in more advanced courses.

We also recommend the solutions manual for this textbook. End of chapter problems are a very good way to practice the material and test your knowledge. For your information, McGraw-Hill will be offering the textbook plus a custom supplement at a reduced price through the bookstore. The custom supplement contains a study guide and the solutions manual for chapters 1-22.

3. Announcements, problem sets, solutions, past exams, will also be made available via the Canvas course page.

4. If you find it helpful to see the material presented in different ways, we recommend the following textbooks:

Corporate Finance, 7th Edition, by Stephen Ross, Randolph Westerfield, and Jeffrey Jaffe, McGraw-Hill

Corporate Finance, 2nd Edition, by Jonathan Berk and Peter DeMarzo, Pearson

Requirements

Students enrolled in FNCE 614 are expected to submit 3 problems sets and take one exam. Grades will be based on:

Problem Sets	30%
Final Exam	70%

Students enrolled in FNCE 611 are expected to submit 6 problems sets, and take one midterm and a final exam. Grades will be based on:

Problem Sets	20%
Midterm Exam	35%
Final Exam	45%

Exams

FNCE 614 has a final exam on February 26; FNCE 611 has a midterm exam on February 26 and the final exam (date still tentative) on April 29, respectively. All exams are mandatory. Please note that, in accord with the guidelines published by the MBA Program Office, there will be no rescheduling of exams to accommodate job interviewing, personal travel, etc. If an emergency or illness should force you to miss an exam, you must contact us before the test is given. You will be allowed to take a makeup exam only if you have a physician's explanation for your absence.

Exams are cumulative, open-book, open-notes, and we will also provide you with a formula sheet. You should bring a calculator to the exam, but not a laptop computer. We do not allow 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.

Problem Sets

The problem set postings and due dates are as follows:

#1	posting on January 15	due on January 22
#2	posting on February 5	due on February 12
#3	posting on February 14	due on February 21
#4	posting on March 19	due on March 26
#5	posting on March 28	due on April 4
#6	posting on April 11	due on April 18

Due dates are also marked (*) in the course schedule. All problem sets can be solved in groups of up to three students, and are to be handed in as one write-up per group at the beginning of class. Late assignments will not be accepted. The purpose of the problem sets is to increase your understanding of the material, provide early feedback, and help you prepare for the exams.

Solutions to each problem set will be made available after your answers have been turned in.

Graded problem sets will be returned to the Huntsman Hall mailfolders. For non-Wharton students, your problem sets will be returned to a file cabinet in the Finance Department, 2nd floor SHDH.

Calculators and Spreadsheets

You will need a calculator for this class. Ideally, this calculator is capable of financial functions such as Present Value, Internal Rate of Return, etc. Recommended financial calculators that can perform such functions are the HP 17bII+, HP 17BII or 19BII. If you do not use a financial calculator, then please make sure your calculator can perform the $\ln(x)$, $\exp(x)$, and $(x)^a$ functions. You may not use calculators with spreadsheet or download capabilities. Please invest the time required to learn the efficient use of your calculator, by the end of the first week of class. You'll also be grateful for this knowledge during exams.

In addition, you should use the course as an opportunity to learn the basics of a spreadsheet program such as Microsoft EXCEL. All computations that we perform in this class can be carried out using such software. It will also be very helpful for solving some problem set questions if you familiarize yourself with the EXCEL tools Goal Seek and Solver, in particular if you do not own a financial calculator.

Course Schedule (tentative as of December 18, 2012)

Class	Date	Topic	BMA
1	Jan 8	Introduction to Corporate Finance	1
2	Jan 10	Time Value of Money and Calculating Present Values	2
3	Jan 15	Valuing Bonds and Stocks	3, 4
4	Jan 17	Valuing Bonds and Stocks	3, 4
5 *	Jan 22	Valuing Bonds and Stocks	3, 4
6	Feb 5	Net Present Value and Other Investment Criteria	5
7	Feb 7	Investment Decisions using the Net Present Value Rule	6
8 *	Feb 12	Introduction to Risk and Return	7
9	Feb 14	Portfolio Risk and Diversification	7, 8
10	Feb 19	Capital Asset Pricing Model	8
11 *	Feb 21	Review for Exam	
12	Feb 26	Current Events	
	Feb 26	Exam 6 – 8 pm	
13	Mar 12	Cost of Capital	9
14	Mar 14	Market Efficiency	13
15	Mar 19	Financing Instruments/ Security Issuance	14,15
16	Mar 21	Payout Policy	16
17 *	Mar 26	Capital Structure I	17
18	Mar 28	Capital Structure II	17,18
19	Apr 2	Capital Structure III	18
20 *	Apr 4	Capital Structure IV	18
21	Apr 9	Investment and Financing Interactions	19
22	Apr 11	Options I	20
23	Apr 16	Options II	21
24 *	Apr 18	Wrap-Up / Review for Exam	
25	Apr 24	Buffer	
	Apr 29	Exam 6 – 8 pm	

Ethics Matrix

FNC 611/614 Corporate Finance	Materials							People				
	Approved calculator	Laptop / other electronics	Summary sheet	Textbook / class notes	Past notes / summaries	Past exams / assignments	Internet content / other outside materials	FNC 611/614 Group ¹	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
Problem Sets	A	A	A	A				W	D ¹	D ¹		
Exam Prep	A	A	A	A		A		W	W	W	W	W
Exams	A		A	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				
Other comments: (1) Problem set write-ups may be done in groups of up to 3 students. General discussion with others in class allowed. NO SHARING OF SPECIFIC ANSWERS FOR PROBLEM SETS WITH OTHER WORKING GROUPS. Problem set groups may include students in different sections.												
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. Should you have questions, please contact your Ethics Representative or professor.												