

FNCE 611/614: Corporate Finance
Spring 2015
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 12 through March 3), and Prof. Kaufold teaches Quarter 4 of FNCE 611 (March 16 through April 23.)

Contact Information

Prof. Stephan Dieckmann

Office: 2252 SHDH

Phone: 215-898-4260

Email: sdieckma@wharton.upenn.edu

Office hours: Quarter 3, Tuesday and Thursday, 4:30 – 6:00

Prof. Howard Kaufold

Office: 300 Huntsman Hall

Phone: 215-898-1439

Email: kaufold@wharton.upenn.edu

Office hours: Quarter 4, Tuesday and Wednesday, 4:30 – 6:00

Please make an appointment if you would 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.

Meeting Info

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 24 times, of which 22 are lectures and discussions plus 2 review sessions for the midterm and the final exam, respectively. Times are as follows:

FNCE 611/614 001 Monday/Wednesday 1:30 - 2:50 JMHH 370
FNCE 611/614 002 Monday/Wednesday 3:00 - 4:20 JMHH 370
FNCE 611/614 003 Tuesday/Thursday 10:30 - 11:50 JMHH G60
FNCE 611/614 004 Tuesday/Thursday 12:00 - 1:20 JMHH G60

We do not meet during the focused recruiting period, i.e. there is no class between January 22 and January 30. There is also no class between March 7 and March 15 because of Spring Break.

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 course schedule below for the sequence of topics.
2. The required textbook for the course is:

Principles of Corporate Finance, 11th 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 schedules which book chapter corresponds to the respective topic. We will also post on Canvas which pages to read in preparation for each class. 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. We will make recommendations to you about which end of chapter problems to focus on.

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, 10th Edition, by Stephen Ross, Randolph Westerfield, and Jeffrey Jaffe, McGraw-Hill

Corporate Finance, 3rd 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%

Students have the option to switch between FNCE611 and FNCE614, in either direction. The deadline to inform us if you want to switch is March 4 at 5.59 pm, no exceptions.

Exams

FNCE 614 has a final exam on March 4; FNCE 611 has a midterm exam on March 4 and the final exam on May 7, 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 your academic advisor 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 21	due on February 4
#2	posting on February 9	due on February 18
#3	posting on February 20	due on March 2
#4	posting on March 18	due on March 25
#5	See explanation below	
#6	posting on April 15	due on April 22

Problem Sets 1-4 and 6 can be solved in groups of up to three students and you can form groups among sections. Problem sets are due at 3.00pm on the dates mentioned above; late submissions will not be accepted. Please submit the solutions in hardcopy form to be handed in as one write-up per group. Either bring a copy to class that day, or drop it off at the front desk of the Finance Department, 2nd floor SHDH.

During two weeks of Q4 (Weeks of March 30 and April 6), Professor Kaufold will experiment with a different approach to delivering the course material. You will be asked to view recorded lecture material online for approximately one hour before each class session, with class time dedicated to reviewing the lecture content, working problems, and applying ideas to recent market events. In lieu of Problem Set 5, you will be asked to complete four short online quizzes after viewing the lecture material and before each of the class sessions over those weeks. These quizzes will be done individually (rather than in teams), and will carry in total the same grading weight as one problem set.

The purpose of the problem sets and quizzes 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. 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 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 for Monday/Wednesday classes in JMHH 370

Class	Date	Topic	BMA
1	Jan 12	Introduction to Corporate Finance	1
2	Jan 14	Time Value of Money and Calculating Present Values	2
3	Jan 21	Valuing Bonds and Stocks	3, 4
4	Feb 2	Valuing Bonds and Stocks	3, 4
5	Feb 4	Valuing Bonds and Stocks	3, 4
6	Feb 9	Net Present Value and Other Investment Criteria	5
7	Feb 11	Investment Decisions using the Net Present Value Rule	6
8	Feb 16	Introduction to Risk and Return	7
9	Feb 18	Portfolio Risk and Diversification	7, 8
10	Feb 23	Capital Asset Pricing Model	8
11	Feb 25	Buffer Class / Current Events	
12	Mar 2	Review for Exam	
	Mar 4	Exam 6 – 8 pm	
13	Mar 16	Cost of Capital	9
14	Mar 18	Market Efficiency I	13
15	Mar 23	Market Efficiency II/Financing Instruments	14,15
16	Mar 25	Payout Policy	16
17	Mar 30	Capital Structure I	17
18	Apr 1	Capital Structure II	17,18
19	Apr 6	Capital Structure III	18
20	Apr 8	Capital Structure IV	18
21	Apr 13	Investment and Financing Interactions	19
22	Apr 15	Options I	20
23	Apr 20	Options II	21
24	Apr 22	Wrap-Up / Review for Exam	
	May 7	Exam 6 – 8 pm	

Course Schedule for Tuesday/Thursday classes in JMHH G60

Class	Date	Topic	BMA
1	Jan 13	Introduction to Corporate Finance	1
2	Jan 15	Time Value of Money and Calculating Present Values	2
3	Jan 20	Valuing Bonds and Stocks	3, 4
4	Feb 3	Valuing Bonds and Stocks	3, 4
5	Feb 5	Valuing Bonds and Stocks	3, 4
6	Feb 10	Net Present Value and Other Investment Criteria	5
7	Feb 12	Investment Decisions using the Net Present Value Rule	6
8	Feb 17	Introduction to Risk and Return	7
9	Feb 19	Portfolio Risk and Diversification	7, 8
10	Feb 24	Capital Asset Pricing Model	8
11	Feb 26	Buffer Class / Current Events	
12	Mar 3	Review for Exam	
	Mar 4	Exam 6 – 8 pm	
13	Mar 17	Cost of Capital	9
14	Mar 19	Market Efficiency I	13
15	Mar 24	Market Efficiency II/Financing Instruments	14,15
16	Mar 26	Payout Policy	16
17	Mar 31	Capital Structure I	17
18	Apr 2	Capital Structure II	17,18
19	Apr 7	Capital Structure III	18
20	Apr 9	Capital Structure IV	18
21	Apr 14	Investment and Financing Interactions	19
22	Apr 16	Options I	20
23	Apr 21	Options II	21
24	Apr 23	Wrap-Up / Review for Exam	
	May 7	Exam 6 – 8 pm	

Ethics Matrix

	Materials							People				
FNCE 611/614 Corporate Finance	Approved calculator	Laptop / other electronics	Summary sheet	Textbook / class notes	Past notes / summaries	Past exams / assignments	Internet content / other outside materials	FNCE 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							W = Allowed to work together				
	Shaded Cell = Not allowed							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.												