UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE612
ACCELERATED CORPORATE FINANCE
COURSE SYLLABUS

Prof. Vito D. Gala Fall 2017

E-mail:	vgala@wharton.upenn.edu
Office:	SHDH 2451
Office Hours:	Mondays, 4:30pm – 5:30pm; also by appointment
Classes:	Section 001: Tue/Thu 9:00am-10.30am, JMHH 260
	Section 003: Tue/Thu 10:30am-12.00pm, JMHH 260
	Section 005: Tue/Thu 12:00pm-1.30pm, JMHH 260

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, investment, 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 the relationship between risk and return, capital budgeting techniques under uncertainty, the operation and efficiency of capital markets, the optimal capital structure and payout 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]

While the course does not concentrate exclusively on theory, the basic theoretical underpinnings of the various topics will be formally discussed as they are necessary for competent financial analysis. The course emphasizes the development of problem-solving skills based on a good understanding of general principles that can accommodate the constantly evolving nature of the business environment. Because of the practical importance of the material and as an illustration of the relevant theory, several examples and applications will be discussed throughout the course.

[1] Since FNCE604 has already covered some of the material studied in a typical finance introduction class, the pace of FNCE612 will effectively be about 35-40% faster than that of FNCE611.

Prerequisites

The course assumes that students are familiar with the material covered in FNCE604, and will often make use of this material. No time will be spent reviewing it. As a result, FNCE612 is available only to those students who placed into it based on past credentials or by successfully passing the Finance Placement Exam.[2]

The course makes use of mathematical and statistical manipulations at the level taught in the pre-term "Math for Business" course (STAT611). Although the first section of the notes in FNCE612 will include a review of the statistics material that will be used throughout the course, very little class time will be spent on it. Finally, as in FNCE604, some basic familiarity with Excel will be assumed for FNCE612.

Course Material

The textbook for the course is:

Berk, Jonathan, and Peter DeMarzo, *Corporate Finance*, 4th edition, Pearson: Boston.
(Referred to as BD below)

The textbook should be purchased with the option to access the web platform offered by Pearson, called MyFinanceLab. This web platform will be used for graded homework assignments. A soft copy of this textbook, along with the MyFinanceLab access option, is also available. The textbook can be purchased at the University bookstore.

To show you 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 be available through Study.Net (www.study.net), which is itself accessible through Canvas. The cases will be discussed in class, but solutions will **not** be handed out (unless you contribute to the team work on the different cases, you will get very little out of them).

The rest of the material for the course will be made available only electronically. In particular, my notes for every lecture will be available on Canvas before each lecture. It is your responsibility to bring a printed or electronic copy with you in class. Additional materials will also be made available on Canvas. They will include problem sets (and their solutions), practice exams (and their solutions), and other useful handouts.

[2] Students who placed into the course by credentials should make sure that they are still comfortable with all the topics covered in FNCE604.

Grading and Exam Schedule

Grade Decomposition

The course grade will be based on a final exam (60%), two mini-case reports (10%), one case report (10%), and four individual homework assignments (20%)[3]. Your letter grade for the course will be based on your ranking in the course (curve) following University's guidelines.

Exams

There is a final exam scheduled for **Wednesday, October 18, 6-8pm**. The exam time is non-negotiable. The exam is comprehensive and it will test all the material covered up to the exam date. The exam is open-book, open-notes exam, i.e. you can consult the course textbook and lecture notes while taking the exam. Students can use a calculator, but email-capable devices (laptops, tablets, cell phones, etc.) will not be allowed. Any calculator that has a " x^y " button will do for the exam. The material covered in FNCE604 will not be directly examined again in FNCE612. Of course, we will still need to use many tools developed in that course (e.g., annuity formulas, NPV rule, free cash flows, etc.).

To ensure fairness, there is a deadline for exam-related questions. We will answer questions that you send or post on Canvas by **8:00pm** on the day before the exam. Questions sent or posted afterwards will not be answered until after the exam.

Make-Up Exam

The final exam may be postponed only in case of "illness, a death in the family, or some other unusual event". If such an extraordinary circumstance arises, it is the student's responsibility to notify the instructor at least <u>one</u> week before the exam date (whenever possible) and provide reliable proof of absence (e.g. a signed doctor's note, etc.). As per Wharton policy, traveling, interviews and job-related absences are <u>not</u> considered extraordinary circumstances.

[3] More information about the cases and individual homework assignments is provided below.

Regrading Policy

Grades are non-negotiable. You may request a regrade on the exam written with a pen. Each regrade request must be accompanied by a concise written explanation of the request and submitted to the instructor via email within one week after the exams are graded. 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, please note that the whole exam is potentially subject to regrading.

Case Studies

Preparation for the cases is done in groups of no more than four students. Students will be randomly assigned to teams by the instructor. Neither the TAs nor I will answer any questions related to the cases prior to their discussion in class, as an important element of these assignments is your ability to interpret information and work independently of any guidance. All students should be ready to discuss the cases in class.

A total of two mini-cases will be discussed in class according to the Course Outline provided below. For each mini-case, teams are expected to prepare one report (in pdf) and submit it via Canvas by 8:55am on the day of the class discussion. No late submission will be accepted. All team members will earn the same grade on the case assignment. The report should include (a) cover page with the team number and team members' names, (b) one page of executive summary, and (c) **2-3 pages** of case analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. The cover page, the executive summary, and the appendices do not count towards the 2-3 pages of analysis. Your report should address the suggested questions for the case posted on Canvas, but students are strongly encouraged to address additional points believed to be important for the analysis.

The course will end with a wrap-up class discussion revolving around one more case: Harris Seafoods, Inc. This final case is meant to provide students with a practical overview of many of the topics covered in FNCE604/612. For this last case, team reports must be submitted via Canvas by 8:55am on **Tuesday, October 3rd**. Specifically, every team will be required to submit one pdf file that includes (a) cover page with the team number and team members' names, (b) one page of executive summary, and (c) **3-5 pages** of case analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. The cover page, the executive summary, and the appendices do not count towards the 3-5 pages of analysis. Your report should address the suggested questions for the case posted on Canvas.

Individual Homework Assignments

Four individual homework assignments will be assigned from MyFinanceLab. The site can be accessed from the following address: www.pearsonmylabandmastering.com. Instructions to register for "Wharton - FNCE604/612 - Fall2017" on MyFinanceLab are included on the last page of this syllabus. Each assignment will weight 5% on your final course grade.

Supplementary Problem Sets

In addition to the team cases and individual assignments, supplementary problem sets (and their solutions) will be distributed via Canvas throughout the term. These problem sets are structured to reinforce the major themes in the course material and to provide students with extra practice for the exam. Write-ups for these problem sets will not be collected or graded.

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 course, 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 course for which they are registered, especially on days that include a case discussion. When a conflict is unavoidable, 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 computers for any reason other than to take notes.**

In every aspect of the course, students are required to adhere to the Code of Academic Integrity. Submitted assignments for grading should be your own or your team's own work only. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions. Obtaining access to such materials (in hardcopy or electronically) will count as a violation of the Code of Academic Integrity. Failure to observe this rule will result in severe penalties and referral to the Office of Student Conduct.

Preparing for Classes

The material for this course needs to be absorbed consistently. As the course progresses, students are encouraged to work on the individual homework assignments assigned on MyFinanceLab and on the supplementary problem sets distributed on Canvas. These problems are an integral part of the course and it is generally insufficient to just attend lectures for a full understanding of the material. The exam might include questions that are similar to these recommended problems.

Since I will move at a fast pace, it is recommended that you read up on the lecture notes ahead of time. Students are also encouraged to read from the BD textbook the chapters/sections relevant to the material covered (and to be covered) in class.

Canvas

The course website on Canvas contains the material for FNCE612 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.

Calculators and Computers

You will need a calculator for the course (and the exam). Any calculator with a " x^y " button will do. Financial calculators are not necessary for this course. Finally, please note that email-capable devices (like laptops, tablets, cell phones, and so on) will not be allowed for the exam.

Semester Deadlines

Students are allowed to drop the course (and join FNCE611) during Wharton's official drop/add period. Students who choose to join the FNCE611 course are encouraged to promptly contact the instructor in that course to make sure that they have not missed any deadlines.

Teaching Assistants and Review Sessions

One PhD student and three 2nd-year MBA students will be assisting me in this course. Their principal duties will be to hold office hours and review sessions, answer questions (by email and on Canvas), and grade case studies and exam. Their names and office hours (starting on Tuesday, September 5th) are:

- Akshay Subramanian (MBA - akshays@wharton.upenn.edu), Monday, 9:30-10:30am, SHDH 2403
- Hye Jin Seo (MBA - hjseo@wharton.upenn.edu), Tuesday, 1:30-2:30pm, SHDH 2403
- Marc Giesener (MBA - giesener@wharton.upenn.edu), Wednesday, 4:30-5:30pm, SHDH 2403
- Liu Tong (PhD- tongl@wharton.upenn.edu), Thursday, 4:30-5:30pm, SHDH 2403

Marc Giesener will hold a **review session** before exam on **Monday, October 16, 6:15-8:15pm, SHDH 215.**

Students should use the discussion boards on Canvas to ask course-related questions (i.e., administrative items, course material, problem sets, practice exams, etc.). The TAs will monitor these boards frequently. This board helps ensure that all students have access to the same information, it reduces the duplication of answers, and provides a more efficient and faster response. Please avoid using e-mail to ask case and practice exam related questions. If your question requires an elaborate answer, please come to the office hours.

Course Outline

The material for this course essentially corresponds to chapters 10-18 and 20-21 of the BD textbook. Below is the sequence of topics that will be covered in class, along with the relevant chapters/sections in BD. Note that the first four modules of the FNCE604/612 sequence were covered during the pre-term.

- **Class 1 – Tue, Aug 29**

  Risk and Return: Measurement

  TOPICS: Returns as random variables; mean, variance, and covariance of returns; using historical returns; diversification.

  READINGS FROM BD: Sections 10.1-10.4 and 10-6; Sections 11.1-11.3.

- **Class 2 – Thu, Aug 31**

  Risk and Return: Capital Asset Pricing Model (CAPM) – Part I

  TOPICS: Portfolio risk and return; portfolio choice and Sharpe ratios; equilibrium and the market portfolio; the Capital Asset Pricing Model (CAPM); estimating beta.

  READINGS FROM BD: Sections 11.4-11.8; Sections 12.1-12.3.

- **Class 3 – Tue, Sept 5**

  Risk and Return: Capital Asset Pricing Model (CAPM) – Part II

  TOPICS: Portfolio risk and return; portfolio choice and Sharpe ratios; equilibrium and the market portfolio; the Capital Asset Pricing Model (CAPM); estimating beta.

  READINGS FROM BD: Sections 11.4-11.8; Sections 12.1-12.3.

- **Class 4 – Thu, Sept 7**

  Market Efficiency and Asset Management

  TOPICS: Index investing; average abnormal return and performance evaluation; market efficiency and active portfolio management; multifactor models and hedge funds; behavioral finance.

  READINGS FROM BD: Chapter 13.

- **Class 5 – Tue, Sept 12**

  Cost of Capital

  TOPICS: Debt, equity, and the cost of capital; comparable firms, leverage, and asset betas; cost of capital for a division or project.

  READINGS FROM BD: Sections 12.4-12.5.

  MINI-CASE: Alex Sharpe's Portfolio.

- **Class 6 – Thu, Sept 14**

  Capital Structure – Part I

  TOPICS: Capital structure in a perfect capital market; the role of corporate taxes; the role of personal taxes; the trade-off theory.

  READINGS FROM BD: Chapter 14; Chapter 15; Sections 16.1-16.5.

- **Class 7 – Tue, Sept 19**

  Capital Structure – Part II

  TOPICS: Capital structure in a perfect capital market; the role of corporate taxes; the role of personal taxes; the trade-off theory.

  READINGS FROM BD: Chapter 14; Chapter 15; Sections 16.1-16.5.

  MINI-CASE: Cost of Capital at Ameritrade.

- **Class 8 – Thu, Sept 21**

  Payout Policy

  TOPICS: Dividends and share repurchases; the role of taxes; tax clienteles; the signaling role of payout policy; the effects of agency costs.

  READINGS FROM BD: Sections 17.1-17.6.

- **Class 9 – Tue, Sept 26**

  Valuation

  TOPICS: Weighted average cost of capital; adjusted present value.

  READINGS FROM BD: Sections 18.1-18.3 and 18.5.

- **Class 10 – Thu, Sept 28**

  Options

  TOPICS: Financial options; payoffs at maturity; binomial option pricing; the Black-Scholes formula.

  READINGS FROM BD: Sections 20.1-20.4; Sections 21.1-21.4.

- **Class 11 – Tue, Oct 3**

  CASE**: Harris Seafoods Inc.**

- **Class 12 – Tue, Oct 10**

  Review Key Concepts

  TOPICS: Measurement of Risk and Return, CAPM, Cost of Capital, Market Efficiency and Asset Management, Capital Structure, Payout Policy, Valuation and Options.

- **Final Exam – Wed, Oct 18, 6pm-8pm**

Disclaimer

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

MyFinanceLab™

To register for Wharton-FNCE604/612-Fall2017:

1. Go to www.pearsonmylabandmastering.com.
2. Under Register, select **Student**.
3. Confirm you have the information needed, then select **OK! Register now**.
4. Enter your instructor's course ID: gala16758, and **Continue**.
5. Enter your existing Pearson account **username** and **password** to **Sign In**.

   You have an account if you have ever used a Pearson MyLab & Mastering product, such as MyMathLab, MyITLab, MySpanishLab, MasteringBiology or MasteringPhysics.

   - If you don't have an account, select **Create** and complete the required fields.
6. Select an access option.
   - Enter the access code that came with your textbook or was purchased separately from the bookstore.
   - Buy access using a credit card or PayPal account.
   - If available, get temporary access by selecting the link near the bottom of the page.
7. From the You're Done! page, select **Go To My Courses**.
8. On the My Courses page, select the course name **Wharton-FNCE604/612-Fall2017** to start your work.

To sign in later:

1. Go to www.pearsonmylabandmastering.com.
2. Select **Sign In**.
3. Enter your Pearson account **username** and **password,** and **Sign In**.
4. Select the course name **Wharton-FNCE604/612-Fall2017** to start your work.

To upgrade temporary access to full access:

1. Go to www.pearsonmylabandmastering.com.
2. Select **Sign In**.
3. Enter your Pearson account **username** and **password,** and **Sign In**.
4. Select **Upgrade access** for **Wharton-FNCE604/612-Fall2017.**
5. Enter an access code or buy access with a credit card or PayPal account.