

FNCE 611/614: Corporate Finance
Spring 2020
Syllabus

This course will be co-taught by Prof. Stephan Dieckmann and Prof. Howard Kaufold. FNCE 614 is the first half of FNCE 611. Prof. Dieckmann teaches Quarter 3 (January 21 through March 2), and Prof. Kaufold teaches Quarter 4 (March 16 through April 23.)

Contact Information

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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 and Electronic Devices

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 9:00 - 10:20 F85
FNCE 611/614 002, Monday/Wednesday 10:30 - 11:50 F85
FNCE 611/614 003, Monday/Wednesday 1:30 - 02:50 F85
FNCE 611/614 004, Monday/Wednesday 3:00 - 4:20 F85

We expect students to attend all classes, and to not use electronic devices in class for non-educational purposes. Phones and laptops are not allowed and must be put away, tablets are allowed for note-taking purposes only.

Course Materials

1. Course 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, by Richard Brealey, Stewart Myers, and Franklin Allen, McGraw-Hill

The most current edition is #13. Using earlier editions is also fine. The book's way of presenting the material sometimes differs from the way it is done in the course 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 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, quizzes, problem sets, solutions, past exams, will also be made available via the Canvas page.

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

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

Corporate Finance, by Jonathan Berk and Peter DeMarzo, Pearson

Requirements

Students enrolled in FNCE 614 are expected to submit 8 quizzes for preparation, 3 problems sets for practice, and take one exam. Grades will be based on:

Quizzes	10%
Problem Sets	20%
Final Exam	70%

Students enrolled in FNCE 611 are expected to submit 16 quizzes for preparation, 5 problems sets for practice, and take one midterm and a final exam. Grades will be based on:

Quizzes	10%
Problem Sets	20%
Midterm Exam	30%
Final Exam	40%

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 3 at 5.59 pm, no exceptions.

Quizzes

Quizzes are for class preparation, testing on some basic knowledge that is used in the upcoming class. They are very brief, typically 4 short questions. Please solve the questions on your own, don't consult with classmates on these. The instructions and due dates can be found on Canvas. Quizzes will be graded automatically and the answers are available at the end of class.

Problem Sets

Problem sets are for practice. They are designed 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 the deadline. Students should prepare the solution in groups of up to 3 students, to be handed in as one write-up per group. The submission is online, if you type your answers please submit a doc or pdf file if possible, if you write them out by hand please submit a scan. The instructions and due dates can be found on Canvas.

Exams

FNCE 614 has a final exam on March 3; FNCE 611 has a midterm exam on March 3 and the final exam on May 4, 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.

The exams will be closed-book. For the exam on March 3, you may bring an 8 ½ x 11 piece of paper of notes. For the exam on May 4, you may bring two such pieces of paper. You may bring a calculator to the exams, but not a 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.

Math for Business, Calculators, and Spreadsheets

Several of the mathematical aspects of this course are covered in Math for Business.

You will need a calculator for this class. One option is a calculator that is capable of financial functions such as Present Value, Internal Rate of Return, etc. Financial calculators that can perform such functions are the HP 17bII+, HP 17BII or 19BII. Not using a financial calculator is perfectly fine, 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.

Course Schedule

Class	Date	Topic	BMA
1	Jan 22	Introduction to Corporate Finance	1
2	Jan 27	Time Value of Money and Calculating Present Values	2
3	Jan 29	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
10	Feb 24	Capital Asset Pricing Model I	8
11	Feb 26	Capital Asset Pricing Model II	8
12	Mar 2	Review for Exam	
	Mar 3	Exam 6 – 8 pm	
13	Mar 16	Cost of Capital	9
14	Mar 18	Market Efficiency I	13
15	Mar 23	Market Efficiency II	13
16	Mar 25	Capital Structure I	17
17	Mar 30	Capital Structure II	17,18
18	Apr 1	Capital Structure III	18
19	Apr 6	Capital Structure IV	18
20	Apr 8	Investment and Financing Interactions	19
21	Apr 13	Financing Instruments	14,15
22	Apr 15	Options I	20
23	Apr 20	Options II	21
24	Apr 22	Wrap-Up / Review for Exam	
	May 4	Exam 6 – 8 pm	

Ethics Matrix

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	Materials							People				
FNCE 611/614 Corporate Finance	Calculator	Laptop / other electronics	Summary sheet	Textbooks / Class Notes	Past notes / summaries	Past exams / problems	Internet content / other outside materials	Group of 3	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
Quizzes	A	A		A			A	D	D	D	D	D
Problem Sets	A	A		A			A	W	D	D	D	D
Exam Preparation	A	A	A	A		A	A	W	W	W	D	D
Exam March 3	A		A									
Exam May 4	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				
The information above covers many common situations but will not cover every circumstance. Remember: The Wharton 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 professor.												