

## **FNCE 611: Corporate Finance**

Fall 2020

Syllabus

This course will be co-taught by Prof. Stephan Dieckmann and Prof. Howard Kaufold. Prof. Dieckmann teaches Quarter 1, and Prof. Kaufold teaches Quarter 2.

### **Contact Information**

Prof. Stephan Dieckmann

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Office hours: Quarter 1, Tuesday 2.30 – 4.00pm, Friday 9.30 – 11.00am

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Office hours: Quarter 2, Tuesday 4.30 – 6.00pm, Friday 9.00 – 10.30am

We are available for office hours on our zoom channels. Just hop on, we'll see you in the waiting room, and will let you in. Office hours can be effective because you hear your peers asking questions. We are also available for individual appointments of course. Please make an appointment if you would like to meet 1-1. Teaching Assistants will also offer virtual office hours; times 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. They must decide which real assets to purchase and projects to undertake, and which ones to forgo. On the other hand, they must 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" and serves as the basis for all more advanced electives.

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**

We meet 24 times, of which 22 are synchronous lectures and discussions plus 2 review sessions for the midterm and the final exam, respectively. You can access the sessions via the zoom link on Canvas, times are as follows:

FNCE 611/614 001, Monday/Wednesday 9:00 - 10:20

FNCE 611/614 002, Monday/Wednesday 10:30 - 11:50

FNCE 611/614 003, Monday/Wednesday 1:30 - 02:50

FNCE 611/614 004, Monday/Wednesday 3:00 - 4:20

We expect students to attend all classes, but understand that some students won't be able to due to extenuating circumstances and time-zone conflicts. Those students are expected to watch the recording prior to the next class session.

### **Course Materials**

1. Course notes, videos, and recordings can be found on Canvas. Please see the course schedule below for the sequence of topics.
2. This term we will be using Piazza for asynchronous class discussion. Students, TAs, and instructors participate in the discussion by sharing questions and answers.
3. 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.

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 611 are expected to submit approx. 10 quizzes for preparation, 5 problem sets for practice, and take one midterm and a final exam. Grades will be based on:

Attendance & Participation	10%
Quizzes	15%
Problem Sets	15%
Midterm Exam	30%
Final Exam	30%

## **Attendance & Participation**

You can participate live during the synchronous sessions. We will be using Piazza for asynchronous class discussion. The Piazza system is highly catered to interact fast and efficiently with classmates, the TAs, and instructors. Rather than emailing questions, we encourage you to post your questions on Piazza. We understand there might be circumstances that will not allow you to attend a class, e.g. due time zone conflicts. In that case, please use Piazza for asynchronous participation. We will post a score for attendance & participation at the end of Q1, and at the end of the semester.

## **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. 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 4 students, to be handed in as one write-up per group.

## **Exams**

This class has a midterm exam on October 20 and the final exam will take place between December 15 and 22, the exact date is tbd. Both exams are mandatory. 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, please 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 open-book and open-notes. 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 the results have been posted.

## Math for Business, Calculators, and Spreadsheets

Several of the mathematical aspects of this course are covered in Math for Business. We highly recommend you 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 problem set questions if you familiarize yourself with the EXCEL tools Goal Seek and Solver.

Some students enjoy using a financial calculator while studying for this class, but this is not required. 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. If you do use financial calculator, we recommend you learn the use of your calculator by the end of the second week of class.

### Ethics Matrix

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FNCE 611 Corporate Finance	Materials							People				
	Calculator	Laptop / other electronics	Summary sheet	Textbooks / Class Notes	Past notes / summaries	Past exams / problems	Internet content / other outside materials	Group of 4	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
Midterm	A	A	A	A			A					
Final Exam	A	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				
<p>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.</p>												

## Course Schedule

Class	Date	Topic	BMA
1	Sep 2	Introduction to Corporate Finance	1
2	Sep 9	Time Value of Money and Calculating Present Values	2
3	Sep 14	Valuing Bonds and Stocks	3, 4
4	Sep 16	Valuing Bonds and Stocks	3, 4
5	Sep 21	Valuing Bonds and Stocks	3, 4
6	Sep 23	Net Present Value and Other Investment Criteria	5
7	Sep 28	Investment Decisions using the Net Present Value Rule	6
8	Sep 30	Introduction to Risk and Return	7
9	Oct 5	Portfolio Risk and Diversification	7
10	Oct 7	Capital Asset Pricing Model I	8
11	Oct 12	Capital Asset Pricing Model II	8
12	Oct 14	Review for Exam	
	Oct 20	Midterm Exam	
13	Oct 26	Cost of Capital	9
14	Oct 28	Market Efficiency I	13
15	Nov 2	Market Efficiency II	13
16	Nov 4	Capital Structure I	17
17	Nov 9	Capital Structure II	17,18
18	Nov 11	Capital Structure III	18
19	Nov 16	Investment and Financing Interactions	19
20	Nov 18	Payout Policy	16
21	Nov 30	Financing Instruments	14,15
22	Dec 2	Options I	20
23	Dec 7	Options II	21
24	Dec 9	Wrap-Up / Review for Exam	
	Dec 15-22	Final Exam (date TBD)	