

UNIVERSITY OF PENNSYLVANIA
The Wharton School

Finance 1000
Fall 2024

A. Craig MacKinlay
3255 SH-DH

CORPORATE FINANCE

Course Information: On Canvas

Course Description:

The purpose of this course is to introduce techniques of financial analysis, with emphasis on topics in the corporate finance area. The concepts developed in Finance 1000 form the foundation for all elective finance courses. The main topics covered include (1) the time value of money and the net present value rule; (2) valuation of bonds and stocks; (3) principles of capital budgeting; (4) uncertainty and the tradeoff between risk and return; (5) corporate financing and dividend policy decisions; and (6) capital budgeting decisions under uncertainty.

Course Materials:

Required:

S. Ross, R. Westerfield, J. Jaffe, and B. Jordan, Corporate Finance, 13th Edition, McGraw-Hill Education, 2022. (Referred to as RWJJ in course outline.)

A customized paperback version of the 13th edition containing the 16 chapters needed for FNCE 1000 can be purchased in the bookstore. This version is titled: FNCE 1000 Corporate Finance by MacKinlay, ISBN # 9781307826616. The cost from the Penn bookstore is approximately \$82.

A copy of the course text can be rented from the bookstore.

Digital eBook rights to the course text can be acquired in various forms (both temporary and perpetual).

Information is available from the bookstore or the following URL:

<https://www.mheducation.com/highered/product/corporate-finance-jordan-jaffe/M9781260772388.html>

A scientific or business calculator. (It will be necessary for your calculator to have a x^y function.)

Solutions for end-of-chapter problems in RWJJ (available online).

Sample exams with solutions (available online).

Optional:

S. Ross, R. Westerfield, and B. Jordan, Fundamentals of Corporate Finance, Evergreen Release, McGraw-Hill Education, 2024.

T. Koller, M. Goedhart, and D. Wessels, Valuation: Measuring and Managing the Values of Companies (7th Edition), McKinsey and Company, 2020, published by John Wiley and Sons, Hoboken, New Jersey.

D. Kieso, J. Weygandt, and T. Warfield, Intermediate Accounting, 18th edition, John Wiley and Sons, 2022.

Evaluation:

The course grade will be based on three midterm exams and two assignments (to be handed in).

The weightings are:

| | |
|-------------------------------------|-----|
| Maximum of Midterm I and Midterm II | 10% |
| Midterm Exam II | 40% |
| Midterm Exam III | 40% |
| Assignments | 10% |

The first midterm exam is not optional. Failure to take this exam will result in a score of zero for the 10% allocated to the maximum of midterms I and II.

Schedule of Classes:

Classes will be on Tuesdays and Thursdays from August 27 until December 5 except for October 3 (Fall Break) and November 28 (Thanksgiving).

Schedule of Exams:

| | |
|------------------|--------------------------------|
| Midterm Exam I | Wednesday, September 25 (7 pm) |
| Midterm Exam II | Wednesday, October 30 (7pm) |
| Midterm Exam III | Tuesday, December 5 (in class) |

Please note that there will not be any make-up exams except as required by university policy.

Policy for regrade requests:

All regrade requests must be submitted within one week of the day exams are returned.

Office Hours:

My weekly scheduled office hours will be on Tuesdays from 2:45 to 4:00. Any week this time needs to be changed will be announced in advance. Additional office hours in exam weeks will be added as needed.

The course teaching assistants will also have office hours scheduled throughout the term. Their schedule will be posted on canvas.

Course Outline:

I. Time Value of Money.

Readings: RWJJ Chapter 4

II. Valuation of Simple Cash Flow Streams.

Readings: RWJJ Chapter 4

III. Valuation of Bonds.

Readings: RWJJ Chapter 8

IV. Valuation of Stock.

Readings: RWJJ Chapter 9

V. Principles of Capital Budgeting.

Readings: RWJJ Chapters 5, 6, and 7

VI. Risk and Return in Capital Markets.

Readings: RWJJ Chapters 10, 11, and 12

VII. Cost of Capital.

Readings: RWJJ Chapter 13

VIII. Market Efficiency

Readings: RWJJ Chapter 14

VIII. Corporate Financing and Capital Structure.

Readings: RWJJ Chapters 15, 16, and 17

IX. Valuation and Capital Budgeting.

Readings: RWJJ Chapter 18

X. Dividend Policy.

Readings: RWJJ Chapter 19

Additional readings will be available online.