

**THE WHARTON SCHOOL  
CORPORATE FINANCE  
FNCE 412-001**

Fall, 2011

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Course Objective

The course provides an analytical framework for addressing the two fundamental questions a corporation faces: how to decide what investments it should make and how to finance its activities. Key aspects of the framework are a net present value approach to valuation and a portfolio approach to understanding risk.

Course Materials

Brigham and Ehrhardt, Financial Management: Theory and Practice (13th edition, Cengage)

Material available at Study.Net ([www.study.net](http://www.study.net)): Required package includes problems, several readings and a case. Optional package includes supplemental readings (these readings, which are also available through Lippincott Library, are not required; purchase is optional).

WebCafe Room: Can be accessed from <http://webcafe.wharton.upenn.edu/>

Course Requirements

Take-home mid-term exam (date to be announced) (40% of grade), final exam on December 19 at 6:30 p.m. (40%), brief group case assignment (20%).

**COURSE OUTLINE**

**INTRODUCTION**

Sept. 12	Overview: The Major Issues in Financial Management Basic Concepts (Read p. 5-43 in Chapter 1 before the mid-term; if possible, read p. 5-13 before first class)
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**PART I: INVESTMENT DECISIONS**

The first part of the course focuses on why and how a corporation should use net present value as the basis for deciding what activities and projects to undertake.

Sept. 12 and Sept. 19	Net Present Value: The Time Value of Money and its Application to Financial Decision Making ("Discounted Cash Flow Analysis" – available in Webcafe; also available in Study.Net required package)
Sept. 26	Valuing Bonds; Interest Rates (Chapter 5 (sections 5.12 and 5.13 are optional and can be omitted); also read section 7.11 in chapter 7 (p. 286-287))
Oct. 3	Valuing Stocks (Chapter 7 (omit p. 287-290); also review p. 27-36)

- Oct. 10            Capital Budgeting: Net Present Value and Alternative Approaches  
(Chapter 10: read sections 10.1 through 10.11; section 10.12 is optional)  
(*OPTIONAL: "Stock Prices: Net Present Value of Growth Opportunities" – available in Study.Net required package*)
- Oct. 17            Capital Budgeting: Cash Flow Analysis  
(Chapter 11: read sections 11.1 and 11.2; skim 11.3 through 11.11 for a high-level qualitative understanding)  
(*OPTIONAL: P. 71-76 contain a brief review of taxes. Chapter 25 covers the applications of options theory to capital budgeting*)
- Oct. 24            Risk and Return of Individual Investments  
(Read p. 217-231 in chapter 6)  
(*OPTIONAL: Web extension 6A on probability distributions at text website*)
- Oct. 31            Risk and Return in a Portfolio Context: MPT and CAPM  
(Read p. 231-255 in chapter 6, p. 950-954 in chapter 24; p. 287-290 in chapter 7; skim p. 955-963 in chapter 24.)  
(*OPTIONAL: Balance of Chapter 24*)
- Nov. 7            Cost of Capital  
(Chapter 9)
- Nov. 14            Cost of Capital for Companies with Several Businesses  
(Review Chapter 9, especially p. 363-368)  
(*OPTIONAL: Harrington, "Stock Prices, Beta, and Strategic Planning"\**)
- Corporate Valuation  
(Read p. 511-521, review p. 285-286)
- Current Thinking and Issues related to Capital Budgeting and Valuation  
(*OPTIONAL: Luehrman, "What's It Worth? A General Manager's Guide to Valuation"\* and Mass, "The Relative Value of Growth"\**)

## PART II: FINANCING DECISIONS

The second part of the course provides a framework for the corporation's decision about how to finance its operations, with a focus on the impact of capital structure on the firm's value and on capital budgeting decisions.

- Nov. 21            Overview of Capital Markets and Long-Term Financing
- Capital Structure: Theory  
(Read Chapter 15 omitting p. 621-630. Read p. 995-1011 in chapter 26)
- Nov. 28            Capital Structure: Theory and Practice  
(Previous week's reading assignment plus p. 1019-1021)  
(*OPTIONAL: "Adjusted Present Value" – available in Study.Net required package*)

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\* Harvard Business Review article, available from Lippincott Library and in Study.Net optional package

Dec. 5	Distributions to Shareholders: Dividends and Repurchases (Chapter 14, omitting pages 573-582)
	Current Issues and Practice in Financing
Dec. 12	Review
Dec. 19	Final Exam