

**THE WHARTON SCHOOL
CORPORATE FINANCE
FNCE 412-002**

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): 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 14 at 6:30 p.m. (40%), brief group case assignment (20%).

COURSE OUTLINE

INTRODUCTION

Sept. 7	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. 7 and Sept. 14	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. 21	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))
Sept. 28	Valuing Stocks (Chapter 7 (omit p. 287-290); also review p. 27-36)

- Oct. 5 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. 12 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. 19 Risk and Return of Individual Investments
(Read p. 217-231 in chapter 6)
(*OPTIONAL: Web extension 6A on probability distributions at text website*)
- Oct. 26 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. 2 Cost of Capital
(Chapter 9)
- Nov. 9 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. 16 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. 23 Capital Structure: Theory and Practice
(Previous week's reading assignment plus p. 1019-1021)
(*OPTIONAL: "Adjusted Present Value" – available in Study.Net required package*)

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

Nov. 30	Distributions to Shareholders: Dividends and Repurchases (Chapter 14, omitting pages 573-582)
	Current Issues and Practice in Financing
Dec. 7	Review
Dec. 14	Final Exam