

FNCE 100: Corporate Finance

Fall 2012

Syllabus

Instructor

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Office hours are Tuesdays, 1.30 – 3.00 pm. Please make an appointment if you like to meet with me 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 shareholder, 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, these skills are the basis for all more advanced finance courses.

You can think of this course having five 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 what information market participants seem to care about. 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. My goal is to also cover a few current issues and discuss some topics in the context of the current financial crisis.

Lectures

The course is in lecture format. We meet 26 times during this semester, of which 23 are lectures and discussions about new material plus 3 review sessions dedicated towards the midterms and final exam, respectively. Class participation is encouraged and can affect your grade at the margin.

FNCE 100 007 Mon/Wed 09:00 - 10:30, SHDH 209

FNCE 100 008 Mon/Wed 10:30 - 12:00, SHDH 209

FNCE 100 009 Mon/Wed 12:00 - 1:30, SHDH 209

Course Materials

1. All lecture notes will be distributed electronically via Canvas. I will make sure to post them prior to class. Please see the tentative course schedule below for the sequence of topics.

2. There is a required textbook for the course:

Principles of Corporate Finance, 10th Edition, by Richard Brealey,
Stewart Myers, and Franklin Allen, McGraw-Hill

The book's way of presenting the material sometimes differs from the way it is done in the lecture 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. My goal is to cover the material up to chapter 21, and I 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.

I also recommend the solutions manual for this textbook. End of chapter problems are a good way to practice the material and test your knowledge. For your information, McGraw-Hill will be offering the textbook plus a custom supplement at a reduced price through the bookstore. The custom supplement contains a study guide and the solutions manual for chapters 1-22.

3. Announcements, problem sets, solutions, past exams, will also be made available via the Canvas course page.

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

Corporate Finance, 7th Edition, by Stephen Ross, Randolph Westerfield, and Jeffrey Jaffe, McGraw-Hill

Corporate Finance, 2nd Edition, by Jonathan Berk and Peter DeMarzo, Pearson

Exams

There are three mandatory exams, two midterm exams and a final exam. The midterms are on October 2 and November 6, respectively. The final exam takes place on Tuesday December 18, according to the University Registrar's office. There will not be any make-up exams except as required by University policy. I do not allow verbal appeals of grades. Please provide a written statement to me as to why there is a problem. All re-grade requests must be submitted within one week after handing back the exams.

90% of the final grade is based on the exams; each midterm counts as 25%, the final exam counts as 40%. All exams are cumulative, closed-book, closed-notes, and I will provide you with a formula sheet. You may bring a calculator to the exam, but not a computer. University exam rules apply.

Problem Sets

There will be 6 problem sets. I will assign them after class, and they are due one week later at the beginning of class, marked (*) in the course schedule. All problem sets can be solved in groups of up to five students, and to be handed in as one write-up per group. The purpose of the problem sets is to increase your understanding of the material, provide feedback, and help you prepare for the exams.

Solutions to each problem set will be made available after your answers have been turned in. Your graded answers will be returned to a file cabinet in the Finance Department. The problem sets will be graded by giving a "check-plus," "check," "check-minus," or "no credit." The 5 best problem sets that were submitted will count towards the remaining 10% of your final grade.

Course Schedule (tentative as of August 1, 2012)

Class	Date	Topic	BMA
1	Sep 5	Introduction to Corporate Finance	1
2	Sep 10	Time Value of Money and Calculating Present Values	2
3	Sep 12	Valuing Bonds and Stocks	3, 4
4	Sep 17	Valuing Bonds and Stocks	3, 4
5 *	Sep 19	Valuing Bonds and Stocks	3, 4
6	Sep 24	Net Present Value and Other Investment Criteria	5
7	Sep 26	Investment Decisions using the Net Present Value Rule	6
8 *	Oct 1	Review for Midterm	
	Oct 2	First Midterm Exam 6 – 7.30 pm	
9	Oct 3	Introduction to Risk and Return	7
10	Oct 8	Portfolio Risk and Diversification	7, 8
11	Oct 10	Capital Asset Pricing Model	8
12	Oct 15	Risk and the Cost of Capital	9
13 *	Oct 17	Buffer Lecture / Current Events	
	Oct 22	Fall Term Break	
14	Oct 24	Market Efficiency	13
15	Oct 29	A Survey of Financing Instruments	14
16 *	Oct 31	How Corporations Issue Securities	15
17	Nov 5	Review for Midterm	
	Nov 6	Second Midterm Exam 6 – 7.30 pm	
18	Nov 7	Payout Policy	16
19	Nov 12	Capital Structure	17, 18
20	Nov 14	Capital Structure	17, 18
21	Nov 19	Investment Decisions (again) using WACC	19
22 *	Nov 21	Buffer Lecture / Current Events	
23	Nov 26	Introduction to Options	20
24	Nov 28	Use of Options in Managing Risk	20, 21
25	Dec 3	Valuation of Options	21
26 *	Dec 5	Wrap-Up / Review for Final Exam	
	Dec 18	Final Exam 6 – 8 pm	