

BA 130
Corporate Finance

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Office Hours: Thursdays, 1pm-2pm and by appointment

GSIs: Steve Ringer (Office Hours: Thursdays, 10-11am)
Rob Calleja (Office Hours: Wednesdays, 2-3pm)

This course is an introduction to capital markets and the financial management of a corporation. The aim is to provide a basic understanding of the important financial assets available in the capital markets as well a basic knowledge of corporate financial management problems.

The primary goal of this course is to impart the knowledge to allow you to intelligently solve practical business problems. To achieve this goal, it is crucial that you have a sound understanding of finance theory. As such, the course will be theoretical in nature, often requiring rigorous quantitative analysis.

Required Texts: *Corporate Finance* by Ross, Westerfield and Jaffe, 5th Ed

Optional Texts: *Student Problem Manual that accompanies the above text.*

Optional Reading: *The Economist, New York Times, Wall Street Journal, Financial Times*

Reading: You should always reinforce the lectures by doing the assigned readings. You will notice that some topics that I consider to be very important will be covered in great detail (e.g., NPV). In this case the readings simply reinforce the lectures. Time does not allow us to cover most topics in this way. Thus, the readings necessarily also cover material that time does not permit us to cover during lectures. You are responsible for all the material covered in the assigned readings, regardless of whether I have time to cover it in class. Every student is also expected to keep abreast of current innovations in the business world. One way to do this is by reading, on a regular basis, one of the optional publications suggested above.

Class Homepage: You will find additional material that should be useful on my homepage. For example, I have answers to a few frequently asked questions (FAQs) that take the form of interactive movies. The solutions to all the Quizzes will be posted as well as the Quizzes themselves. A copy of the lecture notes will be posted on this page on the day of the given lecture. All material that is handed out during the lecture will also be available on this homepage.

Quizzes: Most weeks there will be a short quiz that on the material covered since the last quiz. At the end of the semester your overall quiz grade will be your average quiz grade *with the lowest two grades dropped*. Missing a quiz

will be treated like missing an exam --- you will be assigned a grade of zero. **With one exception**, the quizzes will be held during the first 20 minutes of the review sections. One quiz will be held in class on **Thursday, February 11** (because the following Monday is a holiday^{*}). The exact quiz dates are **February 1, 8, 11, March 15, 29, April 19, 26**. The quiz will provide you with feedback about your understanding of the previous week's material. You should see them as an early signal of how well you are keeping up with the course.

Midterms: There will be two common midterm exams. As a special incentive, any student who gets 100% on all quizzes preceding either midterm will be excused from taking **that** midterm and will be given a grade of 100% on the midterm as well. The midterms will not be comprehensive, but the final will. The midterms will be held in the evening in Andersen Auditorium on **Wednesday, February 24** and Thursday, **April 8**. **If you cannot make either of these times you must let me know by the end of the second week of classes. If I do not hear from you then you are expected to take the midterms at those times.**

Final Exam: The final exam will be a common exam for both sections. To accommodate this, the exam will be held on **Saturday, May 15, 5pm-8pm**. Since this represents a change to the final exam schedule, any student that has a conflict, and *informs me of this conflict by February 15*, will be accommodated. If I have not heard from you by this date, I will assume you can make the final exam on May 15.

Term Project: You will be required to hand in a term project. This group project is supposed to bring together the ideas in the course in the context of a topical case. The case itself is difficult, and I would expect that completing the project will require much effort. You must complete the project in order to achieve a passing grade in the course. Some of the material in Chapter 8 of RWJ might be useful for this project.

Homework: To help prepare for the weekly quizzes, the midterm exams and the final, I have suggested optional homework problems. The GSIs will go over these problems during the review sections. Once the review section is over, solutions to these problems will be made available on my home page. The only way to learn the material in this class is to work a large number of problems. Additional problems can be found at the end of every chapter of the required text, as well in the optional problem manual. If you are at all concerned about this class, **I strongly advise purchasing the problem manual.**

Grades: Your final grade will be determined by your performance on the Quizzes, term project, midterm exams and the final exam. The actual percentages are:

Quizzes	15%
Midterm Exam (1)	25%
Midterm Exam (2)	25%
Term Project	10%
Final Exam	25%

^{*} This means that there will be *two* quizzes in the week of February 8. The only alternative is to have the quiz later in the following week, but that would leave too little time between the quiz and the first midterm.

Course Syllabus

Note: All readings refer to *Corporate Finance*.

Tuesday, January 19

- (i) Lecture:
History of Financial Markets and the Firm
- (ii) Reading:
Chapter 1 - Introduction to Corporate Finance

Thursday, January 21

- (i) Lecture:
Financial Markets and NPV
- (ii) Reading:
Chapter 3- Financial Markets and NPV

Tuesday, January 26

- (i) Lecture:
Net Present Value
- (ii) Reading:
Chapter 4- NPV
- (iii) Suggested Homework Problems
4.3,4.7,4.12,4.23,4.26,4.39,4.47

Thursday, January 28

- (i) Lecture:
Bond Valuation
- (ii) Reading:
Chapter 5: Sec. 5.1-5.3
- (iii) Suggested Homework Problems
5.1, 5.3, 5.8, 5.9

Quiz 1 on Monday, February 1

Tuesday, February 2

- (i) Lecture:
Term Structure of Interest Rates
- (ii) Reading:
Chapter 5: Appendix
- (iii) Suggested Homework Problems
A.1,A.4

Thursday, February 4

- (i) Lecture:
Stock Valuation
- (ii) Reading:
Chapter 5: Sec. 5.4-5.9
- (iii) Suggested Homework Problems
5.11,5.18,5.19

Quiz 2 on Monday, February 8

Tuesday, February 9

- (i) Lecture:
 - Stock Valuation Continued
 - Alternative Investment Rules
- (ii) Reading:
 - Chapter 6:6.1-6.2

Thursday, February 11

- (i) Lecture:
 - Term Project Preparation
- (ii) *Quiz 3*

Quiz 3 is during class on February 11

Tuesday, February 16

- (i) Lecture:
 - Alternative Investment Rules
- (ii) Reading:
 - Chapter 6
- (iii) Suggested Homework Problems
 - 6.2, 6.5, 6.8, 6.11, 6.18

Thursday, February 18

- (i) Lecture:
 - Alternative Investment Rules Continued
 - Return in the Capital Market
- (ii) Reading:
 - Chapter 9
- (iii) Suggested Homework Problems
 - 9.10

Tuesday, February 23

- (i) Lecture:
 - Return in the Capital Market
 - Diversification
- (ii) Reading:
 - Chapter 10: Sec 10.1-10.5

Wednesday, February 24

Midterm Exam
Held in Andersen Auditorium from 8pm-10pm

Tuesday, March 2

- (i) Lecture:
Midterm Exam Review
Diversification
- (ii) Reading:
Chapter 10: Sec 10.5-10.6
- (iii) Suggested Homework Problems
10.5,10.7,10.12,10.21,10.38

Thursday, March 4

- (i) Lecture:
Diversification: An Application to Mortgage Backed Securities
Capital Asset Pricing Model
- (ii) Reading:
Chapter 10: Sec 10.6-10.7

Tuesday, March 9

- (i) Lecture:
Capital Asset Pricing Model
- (ii) Reading:
Chapter 10: Sec 10.8-10.10
- (iii) Suggested Homework Problems
10.38

Thursday, March 11

- (i) Lecture:
The Arbitrage Pricing Theory
The Current Status of Asset Pricing Theory
- (ii) Reading:
Chapter 11- The APT
Berk: Does Size Really Matter?
- (iii) Suggested Homework Problems
11.8

Quiz 4 on Monday, March 15

Tuesday, March 16

- (i) Lecture:
Options
- (ii) Reading:
Chapter 21: Sec 21.1-21.6
- (iii) Suggested Homework Problems
21.3,21.6,21.7

Thursday, March 18

- (i) Lecture:
Guest Lecture: What do people actually do?
Ralph Goldsticker, Director of Research, Mellon Capital Management
- (ii) Reading:
TBA

Quiz 5 on Monday, March 29

Tuesday, March 30

- (i) Lecture:
Option Relations
- (ii) Reading:
Chapter 21: Sec 21.6-21.7
- (iii) Suggested Homework Problems
21.8,21.10

Thursday, April 1

- (i) Lecture:
Option Pricing
- (ii) Reading:
Chapter 21: Sec 21.8
- (iii) Suggested Homework Problems
21.18,21.20

Tuesday, April 6

- (i) Lecture:
Revisiting NPV --- Waiting to Invest
- (ii) Reading:
Chapter 21: Sec 21.11
Chapter 22: Sec 22.3-22.5
- (iii) Suggested Homework Problems
22.4

Thursday, April 8

Midterm Exam
Held in Andersen Auditorium from 6pm-8pm

Tuesday, April 13

- (i)Lecture:
Midterm Exam Review
Modigliani Miller I
- (ii) Reading:
Chapter 15: Sec 15.1-15.4

Thursday, April 15

- (i) Lecture:
Modigliani Miller II
Effect of Taxes
- (ii) Reading:
Chapter 15
- (iii) Suggested Homework Problems
15.2, 15.4, 15.7, 15.17

Quiz 6 on Monday, April 19

Tuesday, April 20

- (i) Lecture:
 - Effect of Taxes continued
 - Market Imperfections
- (ii) Reading:
 - Chapter 16: Sec 16.1-16.4

Thursday, April 22

- (i) Lecture:
 - Market Imperfections Continued
- (ii) Reading:
 - Chapter 16
 - Chapter 21: 21.9-21.10
- (iii) Suggested Homework Problems
 - 16.1, 16.4, 16.10

Quiz 7 on Monday, April 26

Tuesday, April 27

- (i) Lecture:
 - Capital Budgeting
- (ii) Reading:
 - Chapter 17
- (iii) Suggested Homework Problems
 - 17.1, 17.6

Thursday, April 29

- (i) Lecture:
 - Dividend Policy
- (ii) Reading:
 - Chapter 18
- (iii) Suggested Homework Problems
 - 18.5, 18.9

Tuesday, May 4

- (i) Lecture:
 - Case Study: Seattle Mariners Baseball Stadium
- (ii) **Term Projects Due**

Thursday, May 6

- (i) Lecture:
 - Review

Saturday, May 15

Final Exam

Held in Andersen Auditorium from 5pm-8pm