Course Syllabus

This syllabus describes the policies and the procedures for this course. Please read it.

1 Contact Information

Instructor: Kasper Larsen
Office: 5102 Wean Hall
Telephone: 412-268-3546
Fax: 412-268-6380
Email: kasperl@andrew.cmu.edu
Course webpage: http://blackboard.andrew.cmu.edu

When and Where:
Monday’s 5:30pm-8:30pm. Broadcasting from Room 242 (Tepper)
I will be teaching in New York the following dates:

• March 21st
• April 25th

Assignment Questions:
Please post your questions on the designated Blackboard discussion site, that way all students get the same information. If you have non-public questions about the assignments, please contact Armen Hovsepian through his email armenh@andrew.cmu.edu

TA-recitations:
Armen Hovsepian will hold TA sessions every Saturday from 10:00am to 11:30am.

2 Course Objectives

This course provides an introduction to the theory, the methods, and the concerns of corporate finance. It has three goals:
1. To provide students with rudimentary training in the skills and methods of financial management.

2. To prepare students for subsequent course work at Tepper in finance. This objective requires that we cover some elementary theory.

3. To give students a base level of sophistication regarding current issues and concerns in financial policy. This is needed to understand the role of finance in debates over corporate strategy and public policy.

### 3 Course Material

**Reading:**

1. Lecture notes, practice problems, and old exams distributed on the course webpage.

2. Brealey, R. and S. Myers, *Principles of Corporate Finance, 7th* edition. If you own an older edition or you are able to get your hands on the 8th edition that will be fine too (Note: The 8th edition has Franklin Allan as third author). Actually, if own any reasonable new introductory textbook, like *Corporate Finance* by Ross, Westerfield and Jaffe or *Financial Markets and Corporate Strategy* by Grinblatt and Titman you can get along. You just need to figure out the relevant chapters to read and maybe do some exercises in those chapters on your own.

**Webpage:**

The course webpage is on the Blackboard system ([http://blackboard.andrew.cmu.edu](http://blackboard.andrew.cmu.edu)). Any course announcements will be posted on this site. In addition, the lecture notes, problem sets, problem set solutions, and any extra material will be available on the webpage.

**Lecture Notes:**

I believe that attending lectures, taking notes, and asking questions is an excellent way to learn basic concepts and principles in an introductory course. For this course, we also have an excellent textbook. For this reason, the lecture notes that I am providing are not a complete record of what I say in class. Rather, the notes will serve as an outline for developing the concepts in each lecture while still requiring active learning (attending lectures, taking notes, and asking questions). After each lecture, I will post a pdf file on Blackboard of the doc-camera slides produced during the class.

### 4 Course Requirements and Grading

The course grade will be based on five individual quizzes, a final exam, and three individual assignments. The final grade will be determined using the following weights:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Individual Quizzes</td>
<td>15%</td>
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<tr>
<td>Final Exam</td>
<td>70%</td>
</tr>
<tr>
<td>Group Assignments</td>
<td>15%</td>
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</tbody>
</table>
Final Exam:

The final exam is a comprehensive exam covering all the material in the course. It is closed book and closed notes. A formula sheet will be provided. A copy of it will be made available on the course webpage. You will need a calculator that can compute natural logarithms and raise numbers to arbitrary powers. Laptops are not permitted.

Please note that the final exam is scheduled by Teppers’ MSCF Program office. I will not permit anyone to take the final exam at another time unless you are ill or face a significant emergency.

The final is scheduled:

**May 4, 6:00pm-9:00pm**

Copies of exams from past years will be made available on the course website.

Individual Assignments:

The assignments are due on the following dates:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Due Date</th>
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<tbody>
<tr>
<td>Assignment 1</td>
<td>Monday, April 11, 2005</td>
</tr>
<tr>
<td>Assignment 2</td>
<td>Monday, April 18, 2005</td>
</tr>
<tr>
<td>Assignment 3</td>
<td>Monday, April 25, 2005</td>
</tr>
</tbody>
</table>

We will spend class time going over the correct answer, or what I view as a reasonable approximation to it. I do expect that the documents you produce be written in coherent English and presented in an intelligible manner. **No late assignments will be accepted.**

The assignments will be made available two weeks before submission deadline. The solution keys will be available on the course webpage after the respective deadlines.

Individual Quizzes:

To keep everyone up to date with the course readings and practice problems, five individual quizzes will be assigned. These quizzes will be variations on some of the practice problems or pertain to the assigned readings. **These quizzes will be taken on the course website under the “Assignments” link. You have one hour to take each quiz.** If you fail to take the quiz before the due date and time, you will receive a grade of zero for that quiz. **The best way to pass the quiz is to do the practice problems before you attempt the quiz.**

You are allowed to use any class materials when taking a quiz. However, you are not allowed to consult your classmates about the quiz.

The quizzes must be completed by 7:00AM on the following dates:

<table>
<thead>
<tr>
<th>Quiz</th>
<th>Lecture Material Included</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quiz 1</td>
<td>Through Monday, March 14, 2005</td>
<td>Monday, March 21, 2005</td>
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<tr>
<td>Quiz 2</td>
<td>Through Monday, March 21, 2005</td>
<td>Monday, March 28, 2005</td>
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<tr>
<td>Quiz 3</td>
<td>Through Monday, March 28, 2005</td>
<td>Monday, April 4, 2005</td>
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<tr>
<td>Quiz 4</td>
<td>Through Monday, April 4, 2005</td>
<td>Monday, April 11, 2005</td>
</tr>
<tr>
<td>Quiz 5</td>
<td>Through Monday, April 11, 2005</td>
<td>Monday, April 18, 2005</td>
</tr>
</tbody>
</table>
Note that you only have one chance to take the quiz. The quiz questions will be available before you take the quiz. The best strategy is to first work out your answers for the quiz questions and then enter them into Blackboard. If you have a problem entering your quiz answers correctly into Blackboard, email your answers before the deadline to Armen Hovsepian (armenh@andrew.cmu.edu). The solution to each quiz will be made available on Blackboard one day after the due date.

Practice Problems:

Practice problem sets with solutions are included on the course website to help you practice applying the concepts we cover in class. You need not turn them in. I strongly advise you to try to do the problem sets on your own, first, without the aid of the solutions. We will go over your questions about the problem sets in the lectures before the final.

5 Academic Integrity and Class Etiquette

Students are expected to follow the rules of academic honesty in this class. This means that examinations and individual quizzes are to be the work of the individual student using only the material permitted. However, concerning all other aspects of the course, I encourage you to speak freely with your classmates.

Concerning class etiquette, please make sure your cellphone is turned off during class and refrain from surfing the web during class.

6 Course Outline

Note that during some classes, we will cover more than one topic.

   Class: Monday, March 14, 2005
   Reading:
   - Brealey and Myers, Chapter 1 and Chapter 14
   Assignment:
   - Do the practice problems. Do not hand in.

2. Foundations of Net Present Value
   Class: Monday, March 14, 2005
   Reading:
   - Brealey and Myers, Chapter 2
   Assignment:
   - Do the practice problems. Do not hand in.
• Do Quiz 1 on the course website by 7:00 AM on Monday, March 21, 2005.

3. Valuing Riskless Cashflows  
   Class: Monday, March 21, 2005  
   Reading:  
   • Brealey and Myers, Chapter 3 and Section 24-2 of Chapter 24 (Section 23-2 of Chapter 23 if using Brealey and Myers, 6th Edition)  
   Assignment:  
   • Do the practice problems. Do not hand in.  
   • Do Quiz 2 on the course website by 7:00 AM on Monday, March 28, 2005.

4. Bond Valuation and Stock Valuation  
   Class: Monday, March 28, 2005  
   Reading:  
   • Brealey and Myers, Sections 3-5 and 3-6 of Chapter 3, Chapter 4  
   Assignment:  
   • Do the practice problems. Do not hand in.  
   • Do Assignment 1. This assignment is due at the beginning of class on Monday, April 11, 2005.  
   • Do Quiz 3 on the course website by 7:00 AM on Monday, April 4, 2005.

5. Investment Decisions using NPV  
   Class: Monday, April 4, 2005  
   Reading:  
   • Brealey and Myers, Chapter 6  
   Assignment:  
   • Do the practice problems. Do not hand in.  
   • Do Assignment 2. This assignment is due at the beginning of class on Monday, April 18, 2005.

6. Alternatives to NPV  
   Class: Monday, April 4, 2005  
   Reading:
- Brealey and Myers, Chapter 5

Assignment:
- Do the practice problems. Do not hand in.
- Do Quiz 4 on the course website by 7:00 AM on Monday, April 11, 2005.

7. Market Efficiency, Introduction to Risk versus Return
Class: Monday, April 11, 2005
Reading:
- Brealey and Myers, Chapter 13

Assignment:
- Do the practice problems. Do not hand in.

8. Portfolio Theory Including Diversification
Class: Monday, April 11, 2005
Reading:
- Brealey and Myers, Chapter 7

Assignment:
- Do the practice problems. Do not hand in.
- Do Quiz 5 on the course website by 7:00 AM on Monday, April 18, 2005.

9. The Capital Asset Pricing Model
Class: Monday, April 18, 2005
Reading:
- Brealey and Myers, Chapter 8

Assignment:
- Do the practice problems. Do not hand in.
- Do Assignment 3. This assignment is due at the beginning of class on Monday, April 25, 2005.

10. Cost of Capital from the CAPM
Class: Monday, April 18, 2005
Reading:
• Brealey and Myers, Sections 9-1 through 9-4 of Chapter 9

Assignment:
• Do practice problems. Do not hand in.

11. **Optimal Debt Policy**
Class: Monday, April 25, 2005
Reading:
• Brealey and Myers, Chapter 17, Chapter 18

Assignment:
• Due the practice problems. Do not hand in.

12. **Dividend Policy**
Class: Monday, April 25, 2005
Reading:
• Brealey and Myers, Chapter 16