

CORPORATE FINANCE

[ECON-157]

FALL 2007

Instructor: Professor Ludwig Chincarini, CFA, Ph.D.

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Office Hours: Carnegie 208 (Mon & Wed 4:15 – 5:30 PM or by request).

Class Hours & Location: Mon & Wed, 2:40-4:00 PM, Carnegie 107

Prerequisites: Econ 57, 58, 102. Econ 87 Recommended.

Course Description: *The course examines the financing decisions of firms and explores links between finance and business. Topics include corporate governance, agency issues, net present value analysis, risk, cost of capital, dividend policy, capital structure, market efficiency, takeovers, and mergers & acquisitions.*

Course Objective: *To be familiar with concepts related to corporate finance. To be able to evaluate the value of a project or company using simple mathematical tools. To understand how corporations issue securities and finance themselves. To be able to read details of IPOs, M&A transactions, and LBOs and grasp the essential concepts. To have a foundation for understanding the broad spectrum of issues related to corporate finance.*

Required Texts:

1. Brealey, Richard A., Myers, Stewart C. and Franklin Allen. *Principles of Corporate Finance*, 8th Edition, McGraw-Hill Irwin.
2. Chincarini, Ludwig B. and Daehwan Kim. *Quantitative Equity Portfolio Management*, New York, McGraw-Hill, 2006. [A fantastic reference book about portfolio management. Some of the tools we discuss in corporate finance are discussed here from a different perspective.]

Reader (Soft Copy): A compilation of articles relevant to the course will be posted on Sakai for use as a reader companion.

Other Reading: Students are **strongly encouraged** to read the Wall St. Journal. Students can sign up for a subscription with me. Barrons is another interesting journal that students should consider.

Handouts: Depending on current news topics, handouts relevant to the material will be distributed to students throughout the semester. It will be the students' responsibility to obtain any missed handouts due to absence at a particular class.

A Note on Academic Honesty: Cheating is against the implicit honor code of Pomona College. Thus, projects, exams, quizzes, and homework should be done with complete integrity. If a case of cheating is detected, it will result in my reporting the act to the university administration. It can also lead to a failing grade in the course. Any act of plagiarism is a serious break of academic standards and a deliberate case can lead to suspension or expulsion. Any quotation from another source, whether written or spoken, must be bound by quotation marks and footnoted. Paraphrases must be footnoted as well. Generally, cite the use of words or work by others.

Other Non-required Text Books:

1. Ross, Stephen, Westerfield, Randolph W., and Jeffrey Jaffe.
Corporate Finance. Irwin Professional, 2004. [*Another very popular corporate finance textbook with different examples.*]

Course Requirements and Grading:

Class Participation:	5%
Mid-Term:	35%
Group Case Studies:	15%
Final Exam:	40%
Assignments:	5%

Note. Class participation consists of attendance, making comments, answering questions, and or posing questions during class. I may randomly call on people. Please come to class on time for consideration of your professor and fellow students. The **Mid-Term** will cover all material covered up to that point in the semester. **Group Case Studies** will consist of group projects in which students will work together to prepare a document on a particular issue related to corporate finance, including a public offering, an M&A transaction, or a private equity financing. All groups should have a small power-point presentation prepared and saved on diskette ready to present to the class. After the presentation, there will be an open discussion in the class. The **Final Exam** will be cumulative based upon material covered during the entire course. **Assignments** will be given so that students can practice answering questions over the material studied and will be used primarily to determine border-line cases. Students are strongly encouraged to do problem sets. Students are encouraged to pay attention to **financial news** as some questions may be linked to current financial market events.

Organization and Course Outline¹²

Session 1: September 5, 2007

1. **Intro to course**
2. **What is Corporate Finance?**
Reading: Chapters 1. BMA.
3. **PDV and Firm Objectives**
Reading: Chapters 2. BMA.

Session 2: September 10, 2007

4. **PDV: How to do it.**
Reading: Chapters 3. BMA.

Session 3: September 12, 2007

5. **Valuing Stocks and Bonds**
Reading: Chapters 4. BMA
Chincarini & Kim, Appendix B on CD.

Session 4: September 17, 2007

6. **Net Present Value and Decision Making**
Reading: Chapters 5. BMA.

¹ In all cases, dates are the most probable, but again this could change as the semester evolves.

² We will miss class on the following days: September 3, 2007 (Labor Day), October 22, 2007 (Fall Recession), and October 31, 2007 (Halloween).

Session 5: September 19, 2007

7. The Subtleties of Discounting
Reading: Chapter 6, BMA.

Session 6: September 24, 2007

8. Risk and Return
Reading: Chapter 7, BMA.
Chincarini & Kim, Appendix B on CD

Session 7: September 26, 2007

9. Risk and Return
Reading: Chapter 7, BMA.
Chincarini & Kim, Appendix B on CD

Session 8: October 1, 2007

10. Theories of Capital Asset Prices
Reading: Chapter 8, BMA.

Session 9: October 3, 2007

11. Capital Budgeting and Risk
Reading: Chapter 9, BMA.

**** October 8: Columbus Day – Special Class ****

Session 10: October 10, 2007

- 12. The 1/8 Rule of Valuation
Reading: Chapter 10, BMA
- 13. Review for Mid-Term

Session 11: October 15, 2007

- 14. Mid-Term Examination

Session 12: October 17, 2007

- 15. Strategy vs. Numbers
Reading: Chapter 11, BMA.

**** October 22: Fall Recession – No Class ****

Session 13: October 24, 2007

- 16. Agents, Performance Measurement, and Mr. Walrus
Reading: Chapter 12, BMA.

Session 14: October 29, 2007

- 17. Things to Know about Market Efficiency
Reading: Chapter 13, BMA.
Chincarini & Kim, Chapter 1 & 2

**** October 31: Halloween – No Class ****

Session 15: November 5, 2007

18. Basic Corporate Finance
Reading: Chapter 14, BMA.

Session 16: November 7, 2007

19. Corporations & Selling Securities
Reading: Chapter 15, BMA.

**** November 12: Veteran's Day – Special Class ****

Session 17: November 14, 2007

20. Payout Policy
Reading: Chapter 16, BMA.
“Corporate Scandals and the Market Response to Dividend Payout Changes.” Chincarini et al. Reader.

Session 18: November 19, 2007

21. Debt vs. Equity
Reading: Chapter 17, BMA.

Session 19: November 21, 2007

22. How much borrowing?
Reading: Chapter 18, BMA.

Session 20: November 26, 2007

23. The WAC
Reading: Chapter 19, BMA.

Session 21: November 28, 2007

24. Basics about Options
Reading: Chapter 20, 21, 22, BMA.

Session 22: December 3, 2007

- 25. Credit Risk
Reading: Chapter 24, BMA.

Session 23: December 5, 2007

- 26. Credit Risk
Reading: Chapter 24, BMA

Session 24: December 10, 2007

- 27. M&A
Reading: Chapter 32, BMA
- 28. LBOs
Reading: Chapter 33, BMA

Session 25: December 12, 2007

- 29. M&A
Reading: Chapter 32, BMA
- 30. LBOs
Reading: Chapter 33, BMA
Reading: VC Pricing Case
- 31. Words of Wisdom for Life
- 32. Review for Final Exam

Session 26: December 18, 2007

- 33. Final Exam. 2 – 4 P.M.

Guest Speakers³

1. Guest Speaker 1: TBA

We may have a guest speaker come to speak on the practical applications of corporate finance.

³ None of the guest speakers are confirmed.