

CORPORATE FINANCE

[ECON-157]

FALL 2008

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, 2:45-4:00 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. Ross, Stephen, Westerfield, Randolph W., and Jeffrey Jaffe. *Corporate Finance*. Irwin Professional, 8th edition, 2008..
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 my website (<http://pages.pomona.edu/~lbc04747/teaching.html>) 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. Brealey, Richard A., Myers, Stewart C. and Franklin Allen. *Principles of Corporate Finance*, 8th Edition, McGraw-Hill Irwin. [*Another very popular corporate finance textbook with different examples.*]

Course Requirements and Grading:

Class Participation:	5%
Mid-Term:	30%
Group Case Studies:	15%
Final Exam:	45%
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, but specifically focused on material covered after the mid-term. **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 3, 2008

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

Session 2: September 8, 2008

4. Financial Statements and Cash Flows: A Review
Reading: Chapters 2 & 3. RWJ.
Reader Articles 1-3 for Extra Review.

Session 3: September 10, 2008

5. PDV: How to do it.
Reading: Chapters 4. RWJ.
Reader Articles 4-5.

Session 4: September 15, 2008

6. Valuing Stocks and Bonds
Reading: Chapters 5. RWJ
Chincarini & Kim, Appendix B on CD.

Session 5: September 17, 2008

7. Net Present Value and Decision Making
Reading: Chapters 6. RWJ.

Session 6: September 22, 2008

8. The Subtleties of Discounting
Reading: Chapter 7, RWJ.
Reader Articles 8.

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: October 20, 2008 (Fall Recession).

Session 7: September 24, 2008

9. **Risk and Return**
Reading: Chapter 9, RWJ.
Chincarini & Kim, Appendix B on CD
Reader Articles 9-11.

Session 8: September 29, 2008

10. **Theories of Capital Asset Prices**
Reading: Chapter 10 & 11, RWJ.

Session 9: October 1, 2008

11. **Capital Budgeting and Risk**
Reading: Chapter 12, RWJ.

Session 10: October 6, 2008

12. **Corporate Financing and Efficient Markets**
Reading: Chapter 13, RWJ
13. **Review for Mid-Term**

Session 11: October 8, 2008

14. **Mid-Term Examination**

Session 12: October 13, 2008

(*Note*: In most parts of the US, Columbus Day is celebrated.)

15. Catch-Up and/or New Material
Reading: Chapter *, RWJ.

Session 13: October 15, 2008

16. Catch-Up and/or New Material
Reading: Chapter *, RWJ.

**** October 20: Fall Recession – No Class ****

Session 14: October 22, 2008

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

**** October 23: Last Day to Drop Classes ****

Session 15: October 27, 2008

18. Basic Corporate Finance
Reading: Chapter 19, RWJ.
Reader Articles 12 and 19

Session 16: October 29, 2008

19. Corporations & Selling Securities
Reading: Chapter 19, RWJ.
Reader Articles 16, 17, 20, and 22.

Session 17: November 3, 2008

20. Payout Policy
Reading: Chapter 18, RWJ.
Reader: Article 21, 23, and 24. “Corporate Scandals and the Market Response to Dividend Payout Changes.” Chincarini *et al.*

Session 18: November 5, 2008

- 21. **Debt vs. Equity**
Reading: Chapter 12 & 15, RWJ.
Reader Articles 25 & 26.

Session 19: November 10, 2008

- 22. **How much borrowing?**
Reading: Chapter 12 & 16, RWJ.

Session 20: November 12, 2008

- 23. **The WAC**
Reading: Chapter 12 & 17, RWJ.

Session 21: November 17, 2008

- 24. **M&A**
Reading: Chapter 29, RWJ .
Reader Articles 28.

Session 22: November 19, 2008

- 25. **M&A**
Reading: Chapter 29, RWJ.

Session 23: November 24, 2008

- 26. **M&A**
Reading: Chapter 29, RWJ

Session 24: November 26, 2008

- 27. **M&A**
Reading: Chapter 29, RWJ
- 28. **LBOs**
Reading: Chapter 29, RWJ

Session 25: December 1, 2008

- 29. M&A
Reading: Chapter 29, RWJ
- 30. LBOs
Reading: Chapter 29, RWJ
Reader Articles 27.

Session 25: December 3, 2008

- 31. Financial Distress
Reading: Chapter 29, RWJ

**** December 4 Guest Speaker. 4:15 – 6:00 PM****

Note: Attendance is mandatory – loss ½ letter grade for not attending.

Session 25: December 8, 2008

- 32. Financial Distress
Reading: Chapter 29, RWJ

Session 25: December 10, 2008

- 33. Words of Wisdom for Life
- 34. Review for Final Exam

Session 26: December 18, 2008

- 35. Final Exam. 2 – 5 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.