

CORPORATE FINANCE

[ECON-157]
FALL 2009

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 109

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, 2009..
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. Articles marked with a *** are REQUIRED reading, other articles are optional and intended only as a companion to the book and lectures.

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.*]

Movies you should rent:

1. Wall Street (1987)
2. Trading Places (1983)
3. Barbarians at the Gate (1993)
4. Glengarry Glenross (1992)
5. Boiler Room (2000)
6. Rogue Trader (1999)

Course Requirements and Grading:

Class Participation:	5%
Mid-Term:	30%
Group Case Studies:	10%
Final Exam:	35%
Assignments:	20%

Note 1: **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 count for the amount indicated above. They will also count towards your final grade. 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.

Note 2. In every other class, we will attempt to do some problems in a group setting.

Organization and Course Outline¹²

Session 1: September 2, 2009

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 7, 2009

4. What is Corporate Finance?
Reading: Chapters 1. RWJ.
5. PDV and Firm Objectives
Reading: Chapters 1. RWJ.

Session 3: September 9, 2009

6. Financial Statements and Cash Flows: A Review
Reading: Chapters 2 & 3. RWJ.
Reader: Articles CF_157_1-CF_157_3 for Extra Review.

Session 4: September 14, 2009

7. Financial Statements and Cash Flows: A Review
Reading: Chapters 2 & 3. RWJ.
Reader: Articles CF_157_1-CF_157_3 for Extra Review.

Session 5: September 16, 2009

8. Problem Set #1 Due
9. In-Class Workshop

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 19, 2009 (Fall Recession).

Session 6: September 21, 2009

10. **Financial Statements and Cash Flows: A Review**
Reading: Chapters 2 & 3. RWJ.
Reader: Articles CF_157_1-CF_157_3 for Extra Review.

Session 7: September 23, 2009

11. **Problem Set #2 Due**
12. **In-Class Workshop**

Session 8: September 28, 2009

13. **PDV: How to do it.**
Reading: Chapters 4. RWJ.
Reader: Articles CF_157_4- CF_157_5.

Session 9: September 30, 2009

14. **Problem Set #3 Due**
15. **In-Class Workshop**

Session 10: October 5, 2009

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

Session 11: October 7, 2009

17. **Problem Set #4 Due**
In-Class Workshop

Session 12: October 12, 2009

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

18. **The Subtleties of Discounting**
Reading: Chapter 7, RWJ.
Reader: Articles CF_157_8.

19. Review for Mid-Term Examination

Session 13: October 14, 2009

20. Midterm Examination

*** Fall Recess: No Class October 19 ***

Session 14: October 21, 2009

21. Midterm Returned and Discussed

*** October 22, 2009: Last Day to Drop the Course ***

Session 15: October 26, 2009

22. Risk and Return

Reading: Chapter 9, RWJ.
Chincarini & Kim, Appendix B on CD
Reader: Articles CF_157_4

23. Theories of Capital Asset Prices

Reading: Chapter 10 & 11, RWJ.
Reader: Articles CF_157_5

Session 16: October 28, 2009

24. Problem Set #5 Due
In-Class Workshop

Session 17: November 2, 2009

25. Risk and Return

Reading: Chapter 9, RWJ.
Chincarini & Kim, Appendix B on CD
Reader: Articles CF_157_4

26. Theories of Capital Asset Prices

27. Reading: Chapter 10 & 11, RWJ.
Reader: Articles CF_157_5

Session 18: November 4, 2009

- 28. Problem Set #6 Due
In-Class Workshop

*** November 5, 2009: Last day to decide if P/NP or for letter grade. ***

Session 19: November 9, 2009

- 29. Capital Budgeting and Risk & WAC
Reading: Chapter 12, RWJ.
Reader: Articles CF_157_6*** & CF_157_7

Session 20: November 11, 2009

- 30. Problem Set #7 Due
In-Class Workshop

Session 21: November 16, 2009

- 31. Capital Budgeting and Risk & WAC
Reading: Chapter 12, RWJ.
Reader: Articles CF_157_6*** & CF_157_7

Session 22: November 18, 2009

- 32. Problem Set #8 Due
In-Class Workshop

Session 23: November 23, 2009

- 33. Capital Structure Basics
Reading: Chapter 15, RWJ.
- 34. Capital Structure: Limits to Debt Use
Reading: Chapter 16, RWJ.
Reader: Articles CF_157_8***, CF_157_9, CF_157_10***

Session 24: November 25, 2009

- 35. Problem Set #9 Due
In-Class Workshop

Session 25: November 30, 2009

- 36. Dividends and Other Payments
Reading: Chapter 18, RWJ
Reader: Articles CF_157_11 & CF_157_12***
- 37. Issuing Securities to the Public
Reading: Chapter 19, RWJ
Reader: Articles CF_157_13, CF_157_14***, & CF_157_15

Session 26: December 2, 2009

- 38. Problem Set #9 Due
In-Class Workshop

Session 27: December 7, 2009

- 39. Options and Corporate Finance
Reading: Chapter 23, RWJ
Reader: Articles CF_157_16***, CF_157_17***

Session 28: December 9, 2009

- 40. Words of Wisdom for Life
- 41. Review for Final Exam

Session 26: December 14, 2009

- 42. 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.