

The Johns Hopkins University



380.760 Corporate Finance

Spring 2010

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Tuesdays 8:00 – 10:30am

R203

Course Description

This course is a graduate-level introductory course in finance. It serves two purposes. First it is an introduction to the tools and concepts of corporate finance and provides a framework for understanding and analyzing financial decisions. Second, it introduces topics in the investments area of finance that are important for the understanding of how prices are set and markets behave. Lectures, readings and problem sets/cases will provide an introduction to basic accounting concepts and financial statement analysis, present value techniques, risk and return tradeoffs, portfolio theory, capital budgeting, financial market efficiency, capital structure decisions, cost of capital issues, option theory, risk management, and corporate governance. The focus of the course is on fundamental principles and quantitative tools of finance, so the approach is rigorous and analytical. The goal is to provide students with a solid conceptual understanding of the basic ideas of modern financial theory as well as the quantitative tools necessary to participate in the modern financial world and upper level finance courses at SAIS.

Course Grading

Each student will be responsible for writing two exams. The first will be **TUESDAY MARCH 9, 2010** during class and the second will be during the final exam period, (to be announced by the Registrar's Office). Students will also be responsible as part of a study group of 3 to 4 students for completing eight quantitative problem sets and TWO case studies. The final grade will be determined by the following weights:

Midterm Exam	30%
Final Exam	30%
Problem Sets/Cases	30%
Group/Class Participation	10%

For those who show an exceptional improvement in performance on the final exam (an increase of at least 10% in relative score) the weights will be changed to 10% for the midterm and 50% for the final.

Auditing

Auditing is allowed only if space is available and with the permission of the instructor. To receive an official audit for this course on your transcript, you must individually or as a transparent part of a study group complete and turn in ONE of the two cases and at least HALF of the questions on FOUR problem sets or complete all the requirements as part of a regular study group. It is your job to alert the TAs and professor as to how and when you are meeting these requirements.

Course Materials

The materials for the course consist of a required textbook and lecture notes available for download on the course website (see below), and a financial calculator.

The text for the course is:

Corporate Finance, by Berk and DeMarzo, Pearson/AW, 2007. (BD) (publish date Oct 2006)

The textbook is available from the SAIS on-line book store or you can obtain it privately from any book store. I recommend trying www.allbookstores.com and typing in the ISBN (978-0321415110) to find the lowest cost provider. Be aware that there is a shorter version with only the first 19 chapters, DO NOT GET this version.

Most students find it a great book and while the book is expensive, it should be thought of as an investment rather than an expense. Many seasoned financial professionals still keep their copy of their Corporate Finance text on the shelf behind their desk.

Additional readings that are assigned are available either on reserve or on the web. In addition to the textbook and required readings, students are encouraged to read popular financial press articles during the term. The course will occasionally discuss relevant current events. Recommended sources include: *The Wall Street Journal*, *Financial Times*, *The Economist*, *Business Week*, etc. Student subscription rates are available for some of these publications.

Website

Course materials such as copies of the lecture slides, occasional class notes, problem sets and case materials will be made available on the course website in Sakai (<http://sakai.jhu.edu>). Most downloads are in Acrobat (*.pdf) format and require Acrobat Reader in order to view them. If you do not have Acrobat Reader you can download a copy free from www.adobe.com/acrobat. All of the computers at SAIS should be able to read these files.

Calculator

In order to carry out quickly the complex calculations often done in modern finance, each student will need to have a financial calculator. I recommend the Texas Instruments® BA II PLUS Financial Calculator (approx \$35) or the Texas Instruments® BA-II Plus Professional Calculator (approx \$65). You are free to use any other (non programmable) financial calculator, but I only guarantee tutorial support for the TI calculators.

These can be ordered online or be found in most office supply or general electronics store or can be ordered on-line (be sure to look for the best deal). While it is possible to do financial calculation without a financial calculator, these require substantially more key stroking (with the resulting greater possibilities for errors) and students with such calculators may be at a significant disadvantage on the exams.

In addition to a calculator, students will need to be functional in MS EXCEL. If you have no experience in these programs, see Career Services for the term's Professional Skills courses that you can sign up for to learn Excel at the basic, intermediate or advanced levels. Sign up early as the Excel courses are popular.

Homework: Cases and Problem Sets

Finance is an analytic field, and students will spend substantial study time (5-8 or more hours per assignment) doing calculations and numerical analysis. The problem sets and homework cases are to be handed in at the time and date indicated on the class outline or modified via announcement in class or the course announcement page. This term problem sets and cases are to be turned in electronically via email to Corpfin10@jhu.edu. All assignments will be returned electronically. Late problem sets or case write-ups will not be accepted. Solutions for the problem sets and cases will be provided on the website.

Study Groups

Students are required (except with special permission of the instructor) to work on the problem sets and cases in study groups. These groups should consist of three to five students enrolled in the course. **Study groups should be formed in the first weeks of class and identified to me in advance of turning in the first problem set.** Please email me a list of the members and a name for your group. **This group name should be included on all group work.** Once established, groups can only change membership with the pre-notification of the instructor and agreement by all concerned parties. **I must be notified in advance of any changes in group membership.** If there are problems within a group that cannot be reconciled satisfactorily by all members of the group, they should be brought to my attention. At the end of the course, all students will be required to confidentially evaluate the contribution of their group members. These evaluations will play a role in the class participation portion of the grade. I recommend that auditors form their own separate group.

Exam Policy

Both exams are closed book. Students need only bring a calculator and writing utensils to the exams. All information other than your own knowledge will be provided with the exams. *Absences from exams are allowed only for validated medical reasons.* Unexcused absences from exams will result in a zero score in the calculation of the final grade. The first exam is scheduled for **TUESDAY MARCH 10, 2009** during class and the second will be during the final exam period, beginning **TUESDAY MAY 5, 2009**. ***Any scheduling conflicts with exam dates must be cleared well in advance with the instructor. Any rescheduled exams must be taken earlier than the scheduled exam.***

Contact

My office hours are Tuesday and Thursday 10:30am – 12:00 pm in my office, Suite 709 BOB (1717 Mass). You can also arrange for other times or just stop by for a short question if my door is open. For longer contacts, please call to make an arrangement. My office phone is 663-5928. I also answer questions via e-mail. My email address is lmарques@jhu.edu. Also, please refer to the course announcement page on Sakai for items of interest such as changes in due dates, hints/clarifications about homework or other breaking information about the course.

Tutorials

There will be one teaching assistant for this course. Information regarding the time and location of TA sessions will be announced during the first week of the course. Tutorial sessions are not review sessions of the material taught in class but consist of applications.

Student Responsibility

This class operates under the SAIS Honor Code. Students are expected to do their own work (or work within their group). At no time is it permissible to use materials from former students or other sources that relate to problem sets or exams other than that currently provided on the course website.

Course Outline

Readings: Readings can be found in the text (BD), on-line (W) or from the course website (DL).

Date **Lecture #** **Title and Readings** **Homework Assignment**

Jan 26 1 **The Financial System and Financial Statement Basics**
BD: Chapters 1 and 2
W: [IBM Guide to Understanding Financials](#)
(at <http://www.ibm.com/investor/help/guide/statement-basics.wss>)
W: [Ratio Analysis](#) – Investopedia University (at <http://www.investopedia.com/university/ratios/>)

DL: Problem Set #1 – Due Tuesday Feb 2 11:59pm email to Corpfin10@jhu.edu

Feb 2 2 **Time Value of Money - the mathematics of finance**
BD: Chapters 3, 4 and 5
W: [Understanding the Time Value of Money](#) – Investopedia
W: [Calculating the Present and Future Value of Annuities](#) – Investopedia

DL: Problem Set #2 – Due Friday Feb 5 11:59pm email to Corpfin10@jhu.edu

**** SPECIAL TA-RUN FINANCIAL CALCULATOR TUTORIALS ****

W: [TI BAI PLUS on-line Tutorial](#) (at <http://www.tvmcalcs.com/baiplus.htm>)
W: [TI BA II PLUS Professional on-line Tutorial](#) (at http://www.tvmcalcs.com/baiplus_professional)

Feb 9 3 **Valuing Bonds and Stocks**
BD: Chapters 8, 9 and 6
W: [Bond Basics](#) (at <http://www.investopedia.com/university/bonds>)
W: [Stock Basics](#) (at <http://www.investopedia.com/university/stocks>)
W: [Digging into the DDM Model](#) (at <http://www.investopedia.com/articles/fundamental/04/041404.asp>)

DL: Problem Set #3 – Due Friday Feb 12 11:59pm email to Corpfin10@jhu.edu

Feb 16 4 **Risk and Return and Asset Pricing Models**
BD: Chapters 10, 11 and 12
W: [Statistics Review](#) – class note
Optional reading: BD Chapter 13

DL: Problem Set #4 – Due Friday Feb 19 11:59pm email to Corpfin10@jhu.edu

Feb 23 5 **Capital Budgeting**
BD: Chapter 7
DL: [Discounted Cash Flow Analysis](#) - Investopedia

DL: Homework Case #1– Due Friday Feb 26 11:59pm email to Corpfin10@jhu.edu

Mar 2 6 **Corporate Financing**
BD: 23 and 24
DL: [Roundtable on Market Efficiency](#) (on download page)
DL: [Passive Investment Strategies and Efficient Markets](#) (on download page)
W: [IPO Basics](#) (at <http://www.investopedia.com/university/ipo/>)

Mar 9 **MIDTERM EXAM (Lectures 1-6)** 8:00 – 10:30am

- Mar 16 Spring Break
- Mar 23 7 **Capital Structure**
BD: Chapters 14, 15 and 16

DL: Problem Set # 5 – Due Friday Mar 26 11:59pm email to Corpfins10@jhu.edu
- Mar 30 8 **Payout Policy and Leasing**
BD: Chapter 17 and 25
W: [Dividends](http://invest-faq.com/articles/stock-dividends.html) - from invest-faq (at <http://invest-faq.com/articles/stock-dividends.html>)
W: [A Breakdown of Stock Buybacks](http://www.investopedia.com/articles/02/041702.asp) (at <http://www.investopedia.com/articles/02/041702.asp>)
W: [Leasing 101](http://www.elease.com/3352/Leasing101.html) (at <http://www.elease.com/3352/Leasing101.html>)

DL: Problem Set #6 – Due Friday Apr 2 11:59pm email to Corpfins10@jhu.edu
- Apr 6 9 **Advanced Valuation with Capital Structure**
BD: Chapters 18 and 19

DL: Homework Case #2 – Target Valuation – Due Friday Apr 9 11:59pm email to Corpfins10@jhu.edu
- Apr 13 10 **Options and Option Pricing**
BD: Chapters 20, 21, and 22,
W: [Options](http://www.investopedia.com/university/options/) from Investopedia (at <http://www.investopedia.com/university/options/>)
W: [Options and Option Pricing](http://www.investopedia.com/articles/optioninvestor/07/options_beat_market.asp) (at http://www.investopedia.com/articles/optioninvestor/07/options_beat_market.asp)

EXTRA: [Option Pricing Calculator](http://www.888options.com/resources/options_calc.jsp) (at http://www.888options.com/resources/options_calc.jsp)

DL: Problem Set # 7 – Due Friday Apr 16 11:59pm email to Corpfins10@jhu.edu
- Apr 20 11 **Risk Management**
BD: Chapter 30
W: [Insurance](http://en.wikipedia.org/wiki/Insurance) - Wikipedia (at <http://en.wikipedia.org/wiki/Insurance>)
W: [Beginner's Guide to Hedging](http://www.investopedia.com/articles/basics/03/080103.asp) (at <http://www.investopedia.com/articles/basics/03/080103.asp>)
W: [Definition of a Futures Contract](http://www.riskglossary.com/articles/future.htm) (at <http://www.riskglossary.com/articles/future.htm>)
W: [What is an Interest Rate Swap?](http://home.earthlink.net/~green/whatisan.htm) (at <http://home.earthlink.net/~green/whatisan.htm>)
W: [Examples of Interest Rate and Currency Swap Pricing](#) – classnote

DL: Problem Set # 8 – Due Friday Apr 23 11:59pm email to Corpfins10@jhu.edu
- Apr 27 12 **Corporate Governance**
BD: Chapters 28 and 29
W: [What is Corporate Governance](#) – short piece from IFC
W: Corporate Governance a Foundation for the Global Economy – OECD (at <http://www.oecdobserver.org/news/fullstory.php/aid/317>)
W: [Sarbanes-Oxley Act of 2002 – overview](http://www.westga.edu/~bquest/2003/auditlaw.htm) (at <http://www.westga.edu/~bquest/2003/auditlaw.htm>)
DL: [Sarbanes Oxley after 5 years](#) – Economist Magazine
DL: [The Follies of Regulation](#) – H. Manne (*WSJ*, 2005)
- TBA 9:00am **EXAM # 2 - Final Exam Period**

Copies of the lecture slides and materials for the problem sets and homework cases will be made available

on the course web page at least one week in advance. Other supplemental news articles may also be distributed.

Recommended Finance Info Websites:

<http://www.myfinancelab.com> - textbook website and location of the My Finance Lab materials

www.finpipe.com a Canadian site with good info on stock and bonds.

www.invest-faq.com - storehouse of basic articles on all types of financial questions.

www.fool.com - practical advice on finance and markets as well as material on personal financial decisions.

www.financewise.com - a more advanced site dealing with popular current issues in finance.

<http://www.investopedia.com/university/> - a great educational site on finance topics with self tests

If you find a good info or link site during the term, let me know and I'll give you an extra credit point! Also, please inform me of any non-functional links. I will correct them or replace them ASAP.

A Final Note About Course

The key to doing well in this course is to develop a good group routine for working on and understanding problems sets and cases. In addition to working on the material, it is important that students do the assigned readings (both textbook and outside readings). As a graduate level course, there is a lot of material thrown at you and you are expected to work on digesting it. The most common comment on this course is that it is A LOT of work. Not everything that matters will be gone over in detail in lectures. More so than with previous sessions of this course, I will rely on students to learn the basic concepts from reading the textbook. The lectures will go over these topics quickly and focus more on the advanced material and applications of the tools/concepts. I encourage you to make good use of the TA and professor's office hour sessions.