## Kellogg School of Management Northwestern University Syllabus for FE 310 "Principles of Finance" Fall 2012

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# **Course Description**

"Principles of Finance" is an intensive one-quarter course that provides an introduction to the major topics in the field of finance, with an emphasis on valuation and corporate finance principles.

## Texts and Supplementary Materials

- Jonathan Berk and Peter DeMarzo, *Corporate Finance*, Prentice Hall, Second Edition. You are free to get a different edition, but *you* will be responsible for doing the correct readings given in the syllabus. Electronic access to MyFinanceLab *will not* be required for the class.
- Case Packet
- A copy of the overhead slides for each lecture will be handed out in class. Make sure you get a copy, as this will greatly reduce the need to take notes.
- Homework assignments, supplementary readings and other topical material will be posted on the course Blackboard page. You should bring your namecard to each class, and have it out throughout the quarter.
- There is a handout in the case packet entitled Using Financial Functions in Excel, by Prof. Korajczyk. It is important to learn how to do these financial calculations on a spreadsheet, such as Excel. If you have a financial calculator and know how to use it, this can also be helpful, but it is not required.

## Office Hours

I will announce weekly office hours in class and on the web page when the term starts. If it is not possible for you to make this scheduled time, we can make an appointment. The best way to reach the faculty or TA is by email. Please post questions about the material, problem sets and cases to the Blackboard Discussion Board, so that they are available to the class as a whole.

## **Review Sessions**

The teaching assistant for this class will run optional weekly review sessions to go over problem sets and cover additional questions. Review sessions are intended only for those of you who are having difficulties with the course. The majority of you should *not feel obliged* to go to these sessions.

# Grading

There are two exams; the midterm is worth 25% of your grade and the final is worth 40% of your grade. The midterm is a free option – if it doesn't help your grade, 65% of the grade will be based on the final, which is cumulative. Requests for reconsideration of grading must be submitted *in writing within a week* of when the material is returned. If a regrade is requested, the entire material will be re-evaluated. I cannot discuss any material for which a regrade will be requested, since the regrade (like the homework or exam) must be based entirely on your own work.

The standards for Academic Integrity strictly apply. Exams must be completed independently and within the allotted time. Only the specifically allowed materials may be used and nothing else. On the homework you can consult with any other class members and refer to class materials, except that answers to previous years' problems are off limits.

There are six graded homework assignments (problem sets and cases), some requiring the use of a PC and spreadsheet program; each is worth 5 points (5% of your grade), for a total of 30% of your grade. The assignments may be submitted by groups of up to five; working on the homework in groups is highly recommended. Your answers should be clear and explanatory (the solution and how you obtained it); an undocumented spreadsheet is not considered a sufficient solution.

Assignment due dates are given on the course outline and are non-negotiable – in the interest of fairness and as required by the honor code, all students should face the same set of deadlines. If you foresee a problem, let me know immediately.

The last 5% of the grade is based on class and group participation. You are expected to be prepared for class, and constructively participate in class discussions and in working through assignments in your groups. I will *cold call* in class, and your responses will affect your class participation grade.

Advice on homework problems: The main objective of the homework is to help you learn by preparing for the class and thinking about the material. My advice is to do your best answering the homework questions, but recognize that they are hard and meant to make you think. The best gauge is whether you understand the issues and the solutions that are handed out.

Advice on exams: The exams are designed to test your understanding of the material by going beyond the examples we discuss in class. Homework assignments and class examples are *not* representative of the problems in exams. I recommend preparing for the exam by working through practice exams posted on Blackboard.

### **Course Outline and Assignments**

This course moves very quickly. To keep up, it is essential that you complete the assigned readings **prior** to class, and that you work through the end-of-chapter problems along the way. Solutions to these and readings not included in the course packet are posted on the Blackboard website. "\*" denotes optional readings.

- Week 1: Time Value of Money and the Yield Curve
  - Reading: Chapters 3, 4, 5, 8, and 30.2 30.4
- Week 2: Using Present Value for Security Valuation and Capital Budgeting
  - Reading: Chapters 2, 6, 7 and 9
  - Homework #1 due in Week 2
- Week 3: Risk and Return I: Diversification and Portfolio Choice
  - Reading: Chapters 10 and 11, "Great Expectations" (The Economist)
  - Homework #2 due in Week 3
- Week 4: Risk and Return II: The CAPM and Valuation Under Uncertainty
  - Reading: Chapters 11 and 12, "How High a Hurdle?" (The Economist)
  - Homework #3 due in Week 4

### MIDTERM EXAM in Week 5

- Weeks 5 / 6: Derivatives
  - Reading: Chapters 20, 21, and 22, Teaching note on "Valuing Loan Guarantees"
  - Optional Reading: "The Options Approach to Capital Investment"\* (Harvard Business Review)
  - Homework #4 due in Week 6
- Week 6: Financing in Perfect Markets Modigliani-Miller
  - Reading: Chapter 14
- Week 7: Capital Structure in Imperfect Markets I Taxes and Financial Distress
  - Reading: Chapter 15 and 16, "Debt and Taxes" (The Journal of Finance)
  - Optional Reading: "The theory and practice of corporate finance: Evidence from the field," (Journal of Financial Economics)\*
  - Homework #5 due in Week 7

- Week 8: Capital Structure in Imperfect Markets II Valuation
  - Reading: Chapter 18
  - Homework #6 due in Week 8
- Week 9: Payout Policy and Issuance in Imperfect Markets
  - Reading: Chapter 17
  - Optional Reading: "Payout Policy in the 21st Century"

### • Week 10: Market Efficiency

- Reading: Chapter 13, "Are Markets Efficient?" (The Wall Street Journal)
- Optional Reading: "Behavioral Finance"

### FINAL EXAM in Week 11 (Exam Week)