

All office hours below are offered every week after classes start, except on holidays and finals week, unless specified otherwise. You are welcome and encouraged to come to any of the office hours for any questions you want answered. We pool all office hours, so you can come to office hours of any of the TAs or instructors in the class, not just the TA or instructor covering your section. For any of the Instructor and TA office hours, if one of us is helping another student and nobody else is waiting outside, please knock on the door and wait outside until the student(s) in the office leave.

Instructor Office hours:

Tuesdays (except Oct. 9 & Nov. 20)	9:15-10:15 am	NH 2028 (administrative issues only)
Wednesdays (except Nov. 21)	9:30-10:45 am	NH 2028 (content-related issues only)
Thursday, October 11 only	9:15-10:15 am	NH 2028 (administrative issues only)
Friday, November 16 only	9:30-10:45 am	NH 2028 (content-related issues only)

TA office hours (every week through December 7 except September 27-28 and the week of November 19):

Jaime Ramirez Cuellar	Mondays and Wednesdays	5:00-6:15 pm	NH 2019
Ganghua Mei	Thursdays	10:00 am-12:30 pm	NH 2051
Richard Uhrig	Thursdays	1:00-2:00 pm	NH 2043
Richard Uhrig	Fridays	2:00-3:30 pm	NH 2043

Additional office hours and review sessions will be announced before each test through Gauchospace.

Grading: 3 tests, 3 assignments, activities

There will be 3 tests and 3 Gauchospace assignments. The first two tests will be 40 minutes each, and the final will be 160 minutes (2 hours, 40 minutes). Photo identification is required for all tests.

Activities: There will be various online activities that will be coordinated with the MobLab software this quarter. You will receive more details at a later date, and these activities will be worth 5% of your grade. If your score on the final exam is better than your activity grade, I will use your final exam score for this part of your grade instead.

Assignments: There will be three assignments in this course. Each assignment will be posted on Gauchospace at least one week before the due date. Please make sure you complete the assignment early on Gauchospace. Extensions to the deadline cannot be granted, and there will be no make-up assignments if missed. Assignments will make up 10% of your course grade.

Tests: The dates listed on this syllabus for tests and the final will likely not change. I will allow alternate accommodations only as described on this syllabus. Once you begin a test, a score will be entered. If you leave the room without turning in your test, a score of 0 will be entered.

The first two tests will count for 20% of your grade each; the final exam will count for 45% of your grade. If you miss one of the first two tests, the weight of this one test will be moved to the final. Once you begin a midterm, the weight of the test cannot be moved to the final exam.

¹ If you have questions related to any test, please e-mail me at least 3 school days before the test. Otherwise, I may not reply to your e-mail before the test.

You will need a full sheet scantron for each test: ParScore F-1712-PAR-L.

Exceptions for administering quizzes and tests:

- If you will miss a test due to a required activity for another UCSB class or NCAA-sponsored event, you may submit a request to me by the date of the fourth lecture. For the request to be approved, I need to be in contact with your instructor, teaching assistant, or staff member at least 10 days before the test, and we must agree to conditions of the test at least 7 days before the test. It is the student's responsibility that all necessary conditions are satisfied. Any requests made that do not meet these guidelines may be denied.
- Any students participating in the Disabled Students Program (DSP) must make the appropriate arrangements with the DSP office as necessary. Any requests made to DSP without sufficient time to make the appropriate arrangements will lead to the student being tested under the same time and room conditions as other students in the class. DSP students are urged to meet with me during office hours before Test 1 in order to prevent any confusion about the test-taking parameters. It is the student's responsibility to make sure that he/she knows how much time will be available for her/his test, even if it differs from the accommodation set up through DSP.

HOMEWORK: Homework will be assigned on Gauchospace, which I strongly urge you to do. Working in small groups is often beneficial. You will not turn in the homework, but I suggest that you acquire a copy of the solutions manual (see information on the book below). Previous tests will also be posted for your convenience. I suggest that you attempt the old tests under the same time constraints as a gauge of your preparedness for your test taking.

Assigning grades

There is no rigid curve for this class, but it is likely that about 25-30% of students will receive a grade in the A range, about 40% of students will receive a grade in the B range, and about 25-30% of students will receive a grade in the C range. (These numbers are in reference to all Econ 134A students enrolled each quarter.) Once grades are assigned, no changes will be made unless an administrative or grading error is discovered.

Basic outline of the class

Each unit below covers about two weeks of lecture time. Unit 1 covers some important tools that are important for this class. Units 2 and 3 each cover a core idea of Corporate Finance. We conclude the class with some special topics.

UNIT 1: Introduction; valuation tools under certainty

UNIT 2: Decision making with uncertainty

UNIT 3: The relationships between risk and return

UNIT 4: Market efficiency; options; leverage

Required textbook

Corporate Finance, by Ross, Westerfield, and Jaffe, 11th edition. ISBN # 978-0-07-786175-9. The solutions manual will be posted on the Gauchospace page, but is for personal use only.

Alternate options:

- Corporate Finance: Core Principles & Applications, by Ross, Westerfield, Jaffe, and Jordan, 3rd or 4th edition. ISBN # 978-0-07-353068-0 or 978-0-07-786165-0. The ISBN # for the solutions manual is 978-0-07-731636-5 or 978-0-07-765041-4. Please note that the 3rd edition is an older edition, so some of the information is old and not up to date.
- Corporate Finance, by Ross, Westerfield, and Jaffe, 9th or 10th edition. ISBN # 978-0-07-338233-3 or 978-0-07-803477-0. Solutions manual ISBN # 978-0-07-724609-9 or 978-0-07-751134-0. Please note that these are older editions, so some of the information is old and not up to date.

(I will post some suggested problems from the text. I suggest that you acquire a copy of the solutions manual in order to check your solutions. NOTE: There is a tendency for students to tear pages out of the solutions manual, so this is a book that you may want to buy new.)

Other information

This syllabus is subject to change. Any changes will be made in lecture and/or Gauchospace with at least one week of notice, except under extraordinary circumstances. Other important information may be given in lecture, which you are responsible for knowing.

Students often ask me for a letter of recommendation after completing this course. Please note that in a class of this size, I usually can only write letters for students who talk to me by week 5 of the quarter of enrollment.

Re-grading policy for Tests: If you believe that a test is not graded properly, you will need to write why you believe your quiz was graded incorrectly. All requests for Test 1 and Test 2 re-grades must be submitted within 10 calendar days of when your test was first available to be returned in lecture or section. (Exception: If the last lecture day is less than 10 calendar days after test results are first available in section, you will have until the end of the final exam to turn in re-grade requests.) Each request must include a hard copy of your open response questions and write-up explaining why you believe you deserve more points. By asking for a re-grade, you acknowledge that any part of the test may be re-graded, which may result in your grade being higher or lower than before. (More information on re-grading may be given in lecture.)

Questions about administrative issues: If you have any questions about issues not related to course material, please e-mail me or come to my office hours as soon as possible. I am happy to make appointments for administrative issues if you have a class conflict during my office hours. If possible, please contact me at least 1 week in advance to make an appointment.

Questions about course material: Due to the large number of students, the instructor cannot answer content questions by e-mail. One TA will be assigned to answer questions on material by e-mail: Ganghua Mei, ganhua_mei@umail.ucsb.edu. Questions will be answered this way starting 1 week after classes begin. If you ask a question, please be specific as possible. Please note that some questions are difficult to answer by e-mail. In these cases, you will be asked to come to office hours.

(Note: There is sometimes high demand for help the last few days before each test. The TAs and I will put first priority on helping students that come by during review sessions and office hours. I recommend that if you have questions during these times, you either study with another person in the class or come by during office hours or review sessions. Any e-mails sent the last few days before each test may or may not be answered before your test, depending on the volume of e-mails received.)

You are welcome to show up to any Econ 134A lecture and section this quarter, subject to seat availability. Also note the following:

- Grades are not disclosed by e-mail. Test results will typically be handed out during your enrolled section. If you do not get your test in section, your TA will most likely have midterm results. You can see your final exam during my office hours next quarter, with photo ID. You can also find out grade information during my office hours with photo ID.

Academic honesty and cheating

Although the vast majority of students conform to proper academic conduct, the Department of Economics has made a great effort in recent years to try to discourage anyone from considering cheating on any test or assignment. Because of this, I present the following statement:

Any student that is caught trying to commit an act of academic misconduct will receive serious consequences. In the least severe cases, in which the instructor does not perceive intent for the student to be academically dishonest, a reduced course grade or a grade of zero for a portion of the course grade will be assigned. In the most severe cases, including intentional acts to be dishonest or doing one's own work on tests, a failing grade for the course will typically be assigned and the associate dean for students will be notified.² In severe cases, I will also typically request a formal hearing. It is my understanding that some students that have a formal hearing are suspended and/or expelled from UCSB.

For more information about cheating, or to report suspected cheating, please go to <http://econ.ucsb.edu/undergraduate/cheating.html>.

The tentative schedule for Econ 134A, Fall 2018, is on the next page. Note that the lectures posted on Gauchospace are meant for a 75-minute format. Each of these lectures will be broken up into multiple lecture slots.

² On tests, it is academically dishonest to intentionally allow other students to see your work done. Please do your best to make sure that others do not see your work on tests. Any blatant sharing of work on tests will be dealt with in the same way as anyone else being academically dishonest.

Date	Topic(s)/Test (Lecture number on GauchoSpace)	Read before lecture (RWJ 11/e)
September 28/October 1	Administrative issues; why study Corporate Finance? (1)	---
October 1/3	BEGIN UNIT 1: The “big picture” of Corporate Finance; thinking about risk; present value, future value, simple interest, compound interest, and discount rates; compounding frequency (2)	1.2 and 1.4-1.6, 4.1-4.3
October 5/8	Perpetuities and annuities; loan amortization (3)	4.4-4.5
October 10/12	Firm value; net present value; payback period methods; equivalent annual cost; other investment rules (4)	4.6, 5.1-5.3, and part of 6.4 (p. 188-190)
October 12/15	Wrapping up the determinants of decision making; BEGIN UNIT 2: An introduction to risk (5)	5.4-5.6, 6.1, and part of 6.5 (p. 190-193); 7.2-7.3
October 17/19	Monte Carlo simulation; Decision trees; An introduction to bonds (6); <i>Review for Test 1</i>	7.4 and 8.1, and part of 8.2 (p. 248-251)
October 22	TEST 1: Unit 1 material	---
October 24/26	Valuing bonds; finding the rate of return; yield curves; risk premiums in bonds (7)	8.4-8.5
October 26/29	Valuing stocks; the dividend discount model; how companies increase their value; PE ratios; stock markets (8)	9.1-9.2 and part of 9.4 (p. 283-285) ³
October 31/November 2	BEGIN UNIT 3: The history of risk in the market, variance, the normal distribution, and averages (9)	10.1-10.6
November 5/7	CAPM I: Stock return correlations; establishing investment portfolios; minimizing portfolio variance; risk premiums; the year 2008 (10)	10.7-10.8 and 11.1-11.4
November 7/9	CAPM II: Generalizing return and risk to many assets; riskless assets; beta (11)	11.5-11.9
November 12	NO CLASS (HOLIDAY)	---
November 14/16	CAPM III: How to estimate the cost of equity capital, including estimation of beta (12)	13.1-13.6
November 16/19	BEGIN UNIT 4: Are markets efficient? (13) <i>Review for Test 2</i>	14.1-14.3, 14.5-14.6, and Chapter 14 summary (p. 462-463)
November 21/23	NO CLASS	---
November 26	TEST 2: Units 2 & 3 material (& possibly problems similar to Test 1)	---
November 28/30	Options (14)	22.1-22.4 and 22.6-22.9
December 3	A brief introduction to Modigliani and Miller (15)	16.3 and part of 16.4 (p. 493-500)
December 5	Finish course material	---
December 7	<i>Review for Test 3 (16)</i>	---
Finals week ⁴ <i>Wednesday, December 12, 4-7 pm time block</i>	FINAL TEST: All lectures and readings (Test is scheduled to begin about 4:05 pm)	---

³ This edition is missing the subsection on Growth Opportunities. Please make sure you learn this material by coming to lecture, looking at the slides posted on GauchoSpace, or check out a copy of the 9th or 10th edition from the library. If you check out the 10th edition, please make sure to read Section 9.3, p. 283-287. The comparable material in the 9th edition is part of Section 9.3, p. 278-282.

⁴ This information is correct as far as I know. If you believe that the information is incorrect, it is your responsibility to notify me at least 14 days before the test.

If you have another edition of the textbook, please refer the following table for the course readings:

Topic(s)	Read before lecture (RWJ 10/e)	Read before lecture (RWJJ 3/e)	Read before lecture (RWJ 9/e)	Read before lecture (RWJJ 4/e)
BEGIN UNIT 1: The “big picture” of Corporate Finance; thinking about risk	1.2 and 1.4-1.6	1.2 and 1.4-1.6	1.2 and 1.4-1.6	1.2 and 1.4-1.6
Present value, future value, simple interest, compound interest, and discount rates; compounding frequency	4.1-4.3	4.1-4.3	4.1-4.3	4.1-4.3
Perpetuities and annuities; loan amortization	4.4-4.5	4.4-4.5	4.4-4.5	4.4-4.5
Firm value; net present value; payback period methods; equivalent annual cost; other investment rules	4.6, 5.1-5.3, and part of 6.5 (p. 193-195)	4.6, 7.1-7.3, and part of 8.5 (p. 250-251)	4.6, 5.1-5.3, and part of 6.5 (p. 189-191)	4.6, 7.1-7.3, and part of 8.5 (p. 244-246)
Wrapping up the determinants of decision making	5.4-5.6, 6.1, and part of 6.3 (p. 181-185)	7.5-7.7, 8.1, and part of 8.3 (p. 245-247)	5.4-5.6, 6.1, and part of 6.3 (p. 181-185)	7.5-7.7, 8.1, and part of 8.3 (p. 239-241)
BEGIN UNIT 2: An introduction to risk	7.2-7.3	9.2-9.4	7.2-7.3	9.2-9.4
An introduction to bonds	7.4 and 8.1, and part of 8.2 (p. 248-251)	9.1, 5.1, and 5.3-5.4	7.4 and 8.1-8.2	9.1, 5.1, and 5.3-5.4
Valuing bonds; finding the rate of return; yield curves; risk premiums in bonds	8.4-8.5	5.6-5.7	8.4-8.5	5.6-5.7
Valuing stocks; the dividend discount model; how companies increase their value; PE ratios; stock markets	9.1-9.3 and part of 9.4 (p. 287-289)	6.1-6.4	9.1-9.2, part of 9.3 (p. 278-282), and 9.4	6.1-6.2, and part of 6.3 (p. 174-175) ⁵
BEGIN UNIT 3: The history of risk in the market; variance, the normal distribution, and averages	10.1-10.6	10.1-10.5 and 10.8	10.1-10.6	10.1-10.5 and 10.8
CAPM I: Stock return correlations; establishing investment portfolios; minimizing portfolio variance; risk premiums; the year 2008	10.7-10.8 and 11.1-11.4	10.6-10.7 and 11.1-11.4 (up to p. 333)	10.7-10.8 and 11.1-11.4	10.6 and 10.7 and 11.1-11.4 (up to p. 328)
CAPM II: Generalizing return and risk to many assets; riskless assets; beta	11.5-11.9	11.4 (starting on p. 333)-11.10	11.5-11.9	11.4 (starting on p. 328)-11.10
CAPM III: How to estimate the cost of equity capital, including estimation of beta	13.1-13.6	12.1-12.3, 12.5, part of 12.6 (p. 375 & 1 st paragraph of p. 376), and 12.7	13.1-13.3, 13.5, part of 13.6 (p. 406-407), and 13.7	12.1-12.6
BEGIN UNIT 4: Are markets efficient?	14.1-14.3, 14.5-14.6, and Chapter 14 summary	13.1-13.3, 13.5-13.6, and Ch. 13 summary (p. 422)	14.1-14.3, 14.5-14.6, and Chapter 14 summary	13.1-13.2, 13.4-13.5, and Ch. 13 summary (p.415)
Options	22.1-22.4 and 22.6-22.9	17.1-17.4 and 17.6-17.9	22.1-22.4 and 22.6-22.9	17.1-17.4 and 17.6-17.9
A brief introduction to Modigliani and Miller	16.3 and part of 16.4 (p. 497-504)	14.3 and part of 14.4 (p. 433-440)	16.3 and part of 16.4 (p. 491-498)	14.3 and part of 14.4 (p. 426-433)

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