

70-391 FINANCE – COURSE SYLLABUS

This syllabus describes the policies and the procedures for this course. **Please read it carefully.**

General Information

Summer 2012 (Session 1)

Instructor: Jessie Jiaxu Wang

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Class Meetings: Monday - Friday, 10:30am – 11:50am, PH 226A

Office Hours: By appointment. Feel free to send me an e-mail with any questions about the course or if you want to arrange an appointment.

Course Description

This course is designed to be a comprehensive introduction to the fundamental principles finance and their applications. It has four goals:

1. To provide students with rudimentary training in the skills and methods of financial management.
2. To prepare students for subsequent course work at Tepper or anywhere else in finance. This objective requires that we cover some elementary theory.
3. To give students a base level of sophistication regarding current issues and concerns in financial policy. We want to understand the role of finance in debates over corporate strategy and public policy.
4. To have FUN. Learning Finance can be a very nice experience (at least it is for me!).

By the end of this course you will understand the fundamentals of stocks and bonds valuation, based on time value of money principle and Law of One Price, optimal portfolio choice theory and the principle of diversification. And you will be able to evaluate investment projects and corporate strategies, which is the basic skill for anyone working as an investment banking analyst. The course is based on three key ideas that lie behind all the valuation tools that we will study:

1. Time value of money (takes account that payments occur in different moments in time),
2. Diversification and hedging (deals with uncertainty in payoffs),
3. No arbitrage and replication.

Lectures

Lectures involve conversations between you and me. I will use material from the supplementary readings to illustrate some of the basic points in the lecture, and to encourage discussion about these points. These readings are from the popular business press or internal documents from corporations or financial institutions. While they bear on the basic ideas covered in the lectures and textbook, they can be read for an understanding of the facts beforehand. This is not an onerous task, because the readings are short. If, while reviewing this material before class, you find yourself baffled, bewildered, or stunned, make a note of this **before class** and ask about it during class. A by-product of the course is that you will begin to be able to critically evaluate the views taken in leading business publications. **Sit as close to the front as possible. No laptops, cell phones, or secret talks needed during the lectures.**

Course Materials

Reading:

1. Lecture notes, practice problems, and sample exams distributed on the course webpage.
2. Brealey, R., S. Myers and F. Allen, *Principles of Corporate Finance*, 10th edition. (An older edition of the textbook is OK, but you will need to figure out the relevant chapters to read.)
3. Supplementary readings distributed on the course webpage or handed out in class.

Webpage:

The course webpage is on the Blackboard (<http://blackboard.andrew.cmu.edu>). Any course announcements will be posted on this site. In addition, the lecture notes, problem sets, solutions, and any extra material will be available on the Blackboard.

Lecture Notes:

Active learning, i.e. attending lectures, taking notes, and asking questions is an excellent way to learn basic concepts and principles in an introductory course. This course uses an excellent textbook. The lecture notes that I am providing are not a complete record of what I say in class. Rather, the notes will serve as an outline for developing the concepts in each lecture while still requiring active learning. **Paper copies of the lecture notes will NOT be made available in class.** If you want a paper copy of the notes, it is your responsibility to print them before class.

Evaluation

Your grade is the highest among the following options,

Option A:	Individual Quizzes	15%
	Group Assignments	15%
	Class Participation	10%
	One Midterm Exam	30%
	One Final Exam	30%

	Individual Quizzes	10%
	Group Assignments	15%
Option B:	Class Participation	10%
	One Midterm Exam	20%
	One Final Exam	45%
	Individual Quizzes	5%
	Group Assignments	15%
Option C:	Class Participation	10%
	One Midterm Exam	10%
	One Final Exam	60%

Exams There will be two close-book exams both held in class. The mid-term is scheduled JUNE 11th MONDAY. The final exam is scheduled JUNE 29th FRIDAY. The exam problems in general will follow the same format as the Practice Problems and quizzes. You are allowed to bring a two-sided A4 cheat sheet containing formulas or other notes for your exclusive use. No laptops or cell phones are permitted during the exams.

Individual Quizzes The purpose of the quizzes is to check your understanding of the material. There are 3 quizzes. You will have 15 min to answer a quiz. If you do the practice problems, these quizzes should be straightforward.

Group Assignments Students are allowed to do the two assignments in groups of up to three students. Each group should submit on the blackboard a single copy of their work at the beginning of the class with the names of all contributing members listed. Groups can change from assignment to assignment. I will not become involved in any group assigning issues. LATE assignments will NOT be accepted.

Participation Class participation serve as a vehicle for determining the grade of a student whose average falls near a boundary of a grade cutoff. Thus, students at a grade boundary may have their grades moved up or down depending on their class participation. During lectures, I encourage you to ask questions. Voluntary class participation is expected; however, I will call on individuals in class from time to time.

Academic Integrity

Students are expected to follow the rules of academic honesty in this class. Examinations and individual quizzes are to be the work of the individual student using only the material permitted. However, concerning all other aspects of the course (including the group assignments), I encourage you to speak freely with your classmates.

Course Outline

I reserve the right to alter the course schedule details if it becomes apparent that some topics require more time.

<i>Introduction to Finance</i>			
Lecture 1	21 May	Introductory Lecture	
Lecture 2	22 May	Finance and Corporations: Overview	BMA Ch 1,15
Lecture 3	23 May	Net Present Value	BMA Ch 2
Lecture 4	24 May	Net Present Value	BMA Ch 2
<i>Securities and Valuation</i>			
Lecture 5	25 May	Net Present Value: rates	BMA Ch 2
Lecture 6	28 May	Bond Valuation	BMA Ch 3
Lecture 7	29 May	Bond Valuation	BMA Ch 3,14
Lecture 8	30 May	Stock Valuation	BMA Ch 4
Lecture 9	31 May	Stock Valuation	BMA Ch 4
Lecture 10	1 June	Stock Valuation	BMA Ch 4,14
<i>Risk, Portfolio Choice and Diversification</i>			
Lecture 11	4 June	Efficient Market Hypothesis	BMA Ch 13
Lecture 12	5 June	Review	BMA Ch 3,4,13,14
Lecture 13	6 June	Portfolio Choice and Diversification	BMA Ch 8
Lecture 14	7 June	Portfolio Choice and Diversification	BMA Ch 8
Lecture 15	8 June	Midterm Review Session	
Midterm	11 June		
<i>CAPM, Capital Structure and Capital Budgeting</i>			
Lecture 16	12 June	CAPM 1	BMA Ch 8
Lecture 17	13 June	CAPM 2	BMA Ch 8
Lecture 18	14 June	Capital Structure and WACC	BMA Ch 17 18
Lecture 19	15 June	Capital Structure and WACC	BMA Ch 17 18
Lecture 20	18 June	Dividend Policy	BMA Ch 16
Lecture 21	19 June	Review: Part 3	BMA Ch 08, 16, 17, 18
Lecture 22	20 June	Capital Budgeting	BMA Ch 5,6
Lecture 23	21 June	Capital Budgeting	BMA Ch 5,6
Lecture 24	22 June	Capital Budgeting	BMA Ch 5,6
<i>Derivatives and Review Sessions</i>			
Lecture 26	25 June	Options	BMA Ch 20, 21
Lecture 27	26 June	Options	BMA Ch 20, 21
Lecture 28	27 June	Final Review Session	
Lecture 29	28 June	Final Review Session	
Final Exam	29 June		