

**University of Guelph**  
**College of Management and Economics**  
**Department of Economics and Finance**

**ECON\*2560.01: Theory of Finance**

**Winter Semester 2012**

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**Office Hours:** Monday 10:00-11:30

Wednesday 2:00-3:30

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

<http://www.economics.uoguelph.ca/student-responsibilities-policies.asp>

### **COURSE OUTLINE**

**Course Description:**

This course is an economics course that deals with the theory of corporate finance. Financial managers of firms are faced with two basic problems: how to invest in the business and how to raise capital to finance investments. The first objective of this course is to provide you with a general understanding of the time value of money; valuation of projects, firms, and securities; net present value; risk; and the capital asset pricing model. The second objective is to provide some insight into the financing decisions of the firm. In this portion of the course we will cover capital structure management and the various types of financial instruments that are commonly available, as well as dividend policy and mergers and acquisitions.

**Required Materials:**

Fundamentals of Corporate Finance, 4<sup>th</sup> Canadian Edition, by Brealey, Myers, Marcus, Maynes, Mitra (McGraw-Hill, 2009) hereafter referred to as B4M.

**Assessment**

Quizzes (In Class - Tuesday, January 31, and Tuesday, March 20)	20%
Company Analysis (Due Tuesday, March 13)	20%
Midterm (In Class - Tuesday, February 28)	25%
Final examination (Saturday, April 14, 2:30-4:30)	35%

*Quizzes (20%):*

There will be two, 30 minute, in class quizzes on January 31 and March 20, worth 10 marks each. You will be provided with a problem set prior to the quiz upon which the quiz will be based. I strongly recommend that you do the problem sets to prepare for the quizzes. There will be no make-up quizzes - the weight of a missed quiz will go on to your final exam.

*Company Analysis (20%):*

You will be assigned a company and will collect data and perform calculations related to that company. This will allow you to become familiar with some of the data sources available on line and will provide you the opportunity to perform some of the calculations discussed in class. Information related to this assignment will be distributed separately. The analysis is due on Tuesday, March 13. Late assignments will be assessed a 10% penalty per day late.

*Midterm (25%):*

The Midterm exam will be given in class on Tuesday, February 28. Makeup exams will only be given if the student has a documentable illness or compassionate reason for missing the exam. If you miss the midterm exam, this midterm exam will count as 0%, unless a verifiable and legitimate excuse is presented (a note from a program advisor will suffice). If you have a verifiable and legitimate excuse, and cannot write the makeup exam, the weight of the midterm will be placed on the final exam.

*Final Examination (35%):*

A student who has a time conflict with the final exam (see above) should not enroll in the course. The Final exam will cover material from the entire course. Should you miss the final examination, please contact your Program Counselor's office for information on how to proceed.

**Reading Assignments:**

**Topics**

1. The goals and functions of finance	B4M, Chapters 1-2-3
2. Discounting and present value.	B4M, Chapter 4
3. Valuation of bonds and stocks	B4M, Chapters 5-6
4. Basics of capital budgeting	B4M, Chapters 7-8-9
5. CAPM and the APT	B4M, Chapters 10-11
6. Capital budgeting and risk	B4M, Chapters 11-12
7. Financing	B4M, Chapters 13-14
8. Debt policy and the capital structure decision	B4M, Chapter 15
9. Dividend policy and the dividend controversy	B4M, Chapter 16
10. Mergers and Acquisitions	B4M, Chapter 23

You will be asked to complete an in class evaluation of this course at some time during the last two weeks of the semester. **The course evaluation for this course will be done in class.** The Department of Economics and Finance policy regarding the conduct and use of these evaluations will be found at:

<http://www.economics.uoguelph.ca/course-evaluation.asp>