



Department of Economics and Finance

**ECON\*2560.01 and 03**  
**Theory of Finance**  
**Fall 2013**



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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.uoguelph.ca/economics/node/1115>

## 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:**

Textbook: Fundamentals of Corporate Finance, 5<sup>th</sup> Canadian Edition, by Brealey, Myers, Marcus, Maynes, Mitra (McGraw-Hill, 2012), hereafter referred to as B4M. Each new text includes access to *Connect*, an online study and testing program, at no additional cost. In lieu of a hard copy text, *Connect* can be purchased separately and includes an eBook.

### **Assessment**

Company Analysis	20%
Quizzes (Best 4 out of 5 in class quizzes)	20%
Midterm (Saturday, October 19, 9:30-11:30 am)	25%
Final examination (Monday, December 2, 7:00-9:00 pm)	35%

*Quizzes (20%):*

There will be five, 15 minute, in-class quizzes on September 20, October 4, October 25, November 8, and November 22, worth 5 marks each. The best 4 out of 5 quizzes will count. Make-up quizzes will not be given. If you miss more than one quiz, it will count as a zero. Quizzes will consist of one (multiple part) problem and will be based on non-graded homework exercises.

*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 and to become familiar with the use of a spreadsheet program. Information related to this assignment will be distributed separately. The analysis is due on Monday November 4. Late assignments will be assessed a 10% penalty per day late. The skills associated with this analysis are incredibly important and you must complete the analysis to pass the course.

*Midterm (25%):*

The Midterm exam will be given on Saturday, October 19, 9:30-11:30 am. Makeup exams will only be given if the student has a documentable illness or compassionate reason for missing the exam. I realize that some students participate in university athletics, university clubs, or have other compelling reasons for not being able to write an exam on that date. Let me know as soon as possible if you have a conflict with the midterm so you can be approved to write the make-up exam. If you miss the midterm exam 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 5       |
| 3. Valuation of bonds and stocks                  | B4M, Chapters 6-7    |
| 4. CAPM   | B4M, Chapters 11-12  |
| 5. Capital budgeting and risk                     | B4M, Chapters 12-13  |
| 6. Basics of capital budgeting                    | B4M, Chapters 8-9-10 |
| 7. Financing                                      | B4M, Chapters 14-15  |
| 8. Debt policy and the capital structure decision | B4M, Chapter 16      |
| 9. Dividend policy and the dividend controversy   | B4M, Chapter 18      |
| 10. Mergers and Acquisitions                      | B4M, Chapter 23      |

**The Department of Economics and Finance *Learning Objectives* (skills and knowledge competencies) for this course are:**

**Skills:**

- 1) **Written Communication:** Students will prepare spreadsheets to **summarize** their results of their company **analysis**.
- 2) **Numerical Problem Solving:** Students will have to perform a variety of financial **calculations** including Present Value **calculations**, Bond and Stock **valuation**, NPV **analysis**, Capital Asset Pricing Model **calculations**, and Firm **valuation** under different capital structures. This will be assessed through quizzes and exams.
- 3) **Problem Solving in a Real World Context:** Students will **collect** data and **apply** the content and **analysis** learned in the course to a Canadian company in their company **analysis**.
- 4) **Computer Skills:** Students will **collect** data from various financial websites and use **excel** (or some other spreadsheet program) to perform **calculations** and **regressions** and to **graph** their data in their company **analysis**.
- 5) **Professional and ethical awareness and conduct:** The company analysis will be assessed a penalty of 10% for each day late as a means of ensuring **time management** skills.

**Knowledge:**

- 1) **Statistical and Econometric Methodology:** Students will **apply** regression analysis to **estimate** beta in their company **analysis**.
- 2) **Microeconomic Modeling:** Students will **understand** the meaning and implications of efficient markets. This will be assessed through exams.
- 3) **Understanding of Specific Markets:** Students will **understand** the institutions and workings of primary and secondary stock and bond markets. This will be assessed through exams.
- 4) **Financial Asset Pricing, Corporate Finance and Risk Analysis:** Students will **calculate** bond and stock prices and returns. Students will **understand** Corporate Finance and how risk affects valuations of bonds, stocks, and investment projects. These will be assessed through quizzes and exams.

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.uoguelph.ca/economics/academics/courses/course-evaluation>