

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

ECON*2560: Theory of Finance

Fall Semester 2011

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Office Hours: Wednesday 9:30-11:00
Thursday 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, 4th Canadian Edition, by Brealey, Myers, Marcus, Maynes, Mitra (McGraw-Hill, 2009) hereafter referred to as B4M.

Assessment

Homework Assignments	16%
Company Analysis (Due Wednesday, November 16)	14%
Midterm (Saturday, October 22, 1:00-3:00)	30%
Final examination (Monday, December 12, 2:30-4:30)	40%

Homework Assignments (16%):

There will be four written problem sets due on September 28, October 19, November 9, and November 30. Assignments are to be submitted in class or to the box in MacK 723 by 4:00 pm on the due date. Emailed submissions will **not** be accepted. Late assignments will be penalized 10% for each day late up to a maximum of two days, and will not be accepted thereafter except for medical or compassionate reasons. Note that late submissions for the October 19 assignment will not be accepted so that the solutions can be posted prior to the midterm.

Company Analysis (14%):

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.

Midterm (30%):

The Midterm exam will be given on Saturday, October 22. 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 makeup exam (usually given from 5-7pm 4 to 5 days after the scheduled midterm). 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 (40%):

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. PLEASE NOTE THAT YOU MUST HAVE A 50% AVERAGE ON THE MIDTERM AND THE FINAL EXAMINATION IN ORDER TO PASS THE COURSE. If you receive less than 50% average, your average exam mark will constitute your final grade in the 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 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>