SYLLABUS

COURSE SYNOPSIS

The goal of this course is to provide a framework for understanding the key theoretical and practical models used in the financial world. After introducing some basic pricing and valuation tools, we will address how to use these tools to provide a foundation on how financial assets are priced in the marketplace. We will go on to examine the tradeoffs between risk and return, and explore optimal portfolio selection and analysis. We will also discuss some derivatives markets (futures and options) and evaluate how these securities can be used for both hedging and speculative purposes. Finally, we will introduce corporate valuation using net present value and alternative methodologies for pricing both projects and companies.

CLASS MEETING TIMES AND FORMAT

Classes will be in a lecture format, but I encourage students to ask questions and to challenge ideas and concepts that are introduced. I will hold weekly office hours, and will also be available at other times by appointment.

Class attendance is essential, as much of the material that we will cover is not in the (optional) textbook, and the lecture handouts by themselves are not sufficient to understand the material fully. Repeated absence from class is likely to have a negative impact on your grade, as I will count anything that I say in class to be fair game for questions in problem sets and exams.

TEXTS:

Lecture Notes: Will be posted on Sakai.

Many students find class attendance and the posted lecture notes to be sufficient. However, if you prefer to have other texts relating to the material, the following two books may be helpful:

Brealey and Myers: Principles of Corporate Finance  OPTIONAL
Bodie, Kane and Marcus: Investments  OPTIONAL
ASSIGNMENTS, PROJECTS, EXAM AND GRADING:

Your grade for this course will be based on a combination of 7 problem sets (35%), 2 case studies in teams (10%), 1 midterm (25%), and a final exam (30%).

The midterm will take place in class on Wednesday, March 5. The final exam for the course is cumulative, and will take place on Monday, April 28 from 9am – 12pm, the date and time specified on the university exam calendar.

The problem sets will be posted on Sakai, typically on a Wednesday, to be handed in (physical copies) the following Monday at the beginning of class. Problem sets may not be handed in late under any circumstances. I understand that there may be exceptional circumstances relating to illness, family emergency, etc. that may prevent you from being able to submit every problem set on time. For this reason, I will drop the lowest problem set score for each student before calculating final grades for the class.

While I encourage students to collaborate on problem sets, each student must hand in his or her own completed version. If you work with others on the problem sets, bear in mind that the final exam is based on independent performance, which should temper your desire to ‘free-ride’ on problem sets, rather than participating actively in the group effort.

Be aware that accuracy is an important component of the grade received on all problem sets, the project, and the exams. In other classes, you might lose just one mark if you use the right method but make a numerical error and arrive at the wrong solution. You should not assume that this type of grading policy will apply in this course. Clear and lucid presentation of your solutions will also work in your favor.

Some problem sets will necessitate the use of the spreadsheet software Excel. If you are unfamiliar with Excel, this will be an excellent opportunity to get some experience with it. It is used throughout the business world, and especially in finance/economics/accounting-related fields.

REGRADE POLICY

I will only accept requests to regrade a problem set if you believe that your true grade is more than 4% higher than your written grade on that problem set. That is, I actively discourage “grade grubbing”. You should also be aware that if you submit a problem set for a regrade, I will regrade the entire problem set, and that this has potential to result in a reduction of the homework grade, if I think that the grader has been too generous in any of the marks awarded.

The same regrade policy applies to exams; that is: only submit an exam for a regrade if you believe that there is a grading error (I’ll permit requests to check errors of 2% or more for exams); and assume that I’ll regrade the entire exam and may remove marks as well as adding them.

Any regrade requests should be submitted, in writing, within 7 days of the problem set (or exam) being returned to you.
COURSE SCHEDULE

Introduction to Discounting Bond Markets

Rates of return. Future Value and present value. Present value of multiple cashflows.

Bond Markets

Bond prices and yields. Forward rates. Duration, convexity, and hedging. The term structure of interest rates and theories of the yield curve slope. Risk management in the fixed income markets.

Problem Sets 1 & 2 (Due Jan 27, Feb 3)

Equity Securities and Corporate Valuation


Problem Set 3 (Due Feb 10)

General Mills Case Study (in self-selected teams of 2 or 3 students – due Feb 17)

GENERAL MILLS VISITING LECTURE: CORPORATE FINANCE CASE STUDY
Feb 17: Don Mulligan, CFO of General Mills, presents the General Mills Case Study debrief.

Portfolio Theory


Problem set 4 (due Feb 24)

Review and Midterm

Monday March 3: Midterm review in class
Wednesday March 5: Midterm in class

Spring Break
March 10 – March 14
Capital Asset Pricing Model: CAPM

*Problem Set 5 (due Mar 24)*

Performance Measurement


*Beam Global Case Study (in teams – due Mar 31)*

**BEAM VISITING LECTURE: CASE STUDY**
Mar 31: Bob Probst, CFO of Beam, presents the Beam Global Case Study debrief.
*Problem Set 6 (due April 7)*

Futures

*Problem Sets 7 & 8 (due Apr 14 & Apr 21)*

Review and wrap-up

April 21, 23

Final Exam

Monday, April 28, 9am – 12pm