Course Description: This course is a continuation of Finance 3502. It provides an intensive introduction to corporate financial decision-making and will prepare you for subsequent courses in the finance major. By the end of the course you should be able to:

1. Know the basic types of financial management decisions and understand the conflicts of interest that can arise between owners and managers
2. Understand the information provided by financial statements and know how to compute and interpret important financial ratios
3. Compute net present value and understand why it is the best decision criterion
4. Understand how to determine the relevant cash flows for various types of capital investments
5. Understand the importance of real options in capital budgeting
6. Understand how to determine the firm’s overall cost of capital
7. Understand capital structure theories as well as real world factors that affect capital structure decisions
8. Compute the value of the unlevered and levered firm and understand the effects of leverage on the value created by a project
9. Understand the issues surrounding dividend policy decisions.
10. Understand the principles of international finance.

Prerequisites: The prerequisites for this course are Finance 3502 (a C or higher in Finance 3502 is required for Finance 3503). Note: The Finance Department enforces ALL prerequisites for Finance 3502 and 3503. Any student who does not satisfy the prerequisites will be de-enrolled during the semester.

Course Coordinator: Dr. Michael Boldin is responsible for coordinating course topics and the use of MyFinanceLab for all sections of Finance 3503. You may contact him (mboldin@temple.edu) with questions or problems concerning MyFinanceLab. Contact your section instructor regarding all other aspects of the course, including HW problems and questions relating to grades.

Textbook: Fundamentals of Corporate Finance, 2nd edition, by Berk, DeMarzo, and Harford. You will also need an access code for MyFinanceLab that accompanies the text. Note that the second edition (published in 2011) is the official textbook for Fall 2011,
Spring 2012, Summer I 2012 and Summer II 2012. The textbook may change for Fall 2012.

Course Grade: Your performance in the course is based on the following:

1. **Homework Assignments**– 20%. TEN distinct homework assignments will be posted on MyFinanceLab (MFL) and these are due on the dates indicated on the Homework Schedule below (and also shown on the course’s MFL home page). To receive full credit, the assignment MUST be completed no later than 8:00 PM of the assignment’s due date.

2. **Alliance Concrete Case**– 10%. There will be two items to hand-in that involve analyzing a business case that must be purchased and downloaded from www.study.net. Directions for using the Study.net website and analyzing the case will be given on Blackboard and during class sessions before these items are due.

3. **Midterm Exam**– 30%. The midterm exam for this course is administered by the section instructor, who will determine both the format and questions on the exam. If the class is canceled on the day of the midterm exam, the exam will be administered at the next scheduled class meeting.

4. **Final Exam**– 40%. A common final exam is given to all sections in a single sitting and will take place on **Thursday, May 3 from 3:30 to 5:30. The location will be announced.** The format will include questions and problems that are similar to the homework assignments. This exam is comprehensive and closed book. Formula sheets will be provided.

You may use a calculator during the exams. **All other electronic devices are NOT permitted. Failure to follow this policy will result in a test grade of 0.**

**Homework Assignments and Course Exams:** While the MFL homework assignments are a critical tool in helping students learn the mechanics of solving quantitative problems, the course exams are designed to test both your understanding of the mechanics AND your knowledge of the definitions and concepts of finance that underlie all financial calculations. The latter type of exam questions is derived from the textbook itself. Thus, a C or higher grade in the course requires mastery of ALL ASSIGNED MATERIAL AND TOPICS FROM THE TEXT.

**Grades:**

- Midterm and final exam grades will be posted on Blackboard. A composite grade (all homework and exams) will also be posted on Blackboard at the end of the semester. If a posted grade is incorrect, you should notify your section instructor immediately.
- Your course grade will be determined according to the following scale by computing a weighted percentage of total points earned from the tests and homework assignments and **after any point adjustments are made per the Department of Finance grading policy:**
  - A: 93% and higher; A-: 90-92%; B+: 87-89%; B: 83-86%; B-: 80-82%; C+: 77-79%; C: 73-76%; C-: 70-72; D+: 67-69%; D: 63-66%; D-: 60-62%; F: below 60%.
• The Department of Finance Grading Policy requires an average course grade for the core finance major courses (Fin 3502 and Fin 3503) equal to 2.33 +/- .20 where an A = 4.0, A- = 3.67, B+ = 3.33, B=3.0, B- = 2.67, etc. The course instructors in Fin 3502 and Fin 3503 meet with the department chair at the end of the semester to determine whether any adjustments in the average grades of the core courses are needed. All questions regarding this policy should be directed to the department chair, Dr. Kenneth Kopecky (215-204-8279).

• An Incomplete or "I" may be granted if you have completed substantially all of the work in the course, but for some unforeseen reason you cannot finish the course. You MUST sign a contract describing the remaining work that needs to be completed to achieve a letter grade.

Make-up Exams:

• Midterm Exam Make-up – Make-up tests are discouraged and are only offered for unusual circumstances. You MUST inform your instructor beforehand if you cannot take a scheduled test. If a make-up test is offered, the format and date will be at your instructor’s discretion.

• Final Exam Make-up – NO final exam will be given to any student prior to the indicated exam date. If you miss the final exam, you MUST inform your instructor and provide an acceptable explanation. These include: illness (doctor’s note required) or a scheduled university activity that requires your attendance (faculty note required). The finance department will administer a make-up final exam prior to the beginning of the next semester. The day and time will be determined later.

Attendance Policy and Class Participation: The finance department believes that your learning experience is positively related to your attendance in class. Therefore, attendance will be taken at every class meeting and excessive absences will have a negative impact on your course grade. For sections with one class session per week, you have ONE no-penalty absence. For sections meeting twice per week, you have TWO no-penalty absences. Each additional absence will result in a one-step grade reduction from your computed course grade (e.g., from B+ to B, or C to C-). Thus, if you anticipate that job, family or health problems may result in a high number of absences, you MUST discuss this matter with your instructor as soon as possible. Note that lateness, failing to pay attention or participate, being disruptive in any manner, and leaving class early may also be recorded as an absence.

Calculators: Homework problems can be solved using algebra, calculators, or a computer spreadsheet. Financial calculators are not a requirement of this course, but a calculator with a power function key (x^y) is highly recommended for the exams. You are solely responsible for learning how to use your calculator.

Laptops, PDAs, and Cell Phones: NO laptops, PDAs/Tablets or cell phones during class time unless you have been given EXPLICIT permission by the instructor. These devices are never permitted during the exams.
Disability Disclosure: Any student who has a need for accommodation based on a disability MUST contact the instructor at the beginning of the semester.

Academic Integrity: Cheating is not tolerated and will result in a grade of 0 on any exam or homework assignment in which cheating occurs. Please consult university policy on academic integrity: http://policies.temple.edu/getdoc.asp?policy_no=03.70.12

Academic Freedom: The University has adopted a policy on Student and Faculty Academic Rights and Responsibilities (Policy # 03.70.02) which can be accessed through the following link: http://Policies.Temple.Edu/Getdoc.Asp?Policy_No=03.70.02

Capital Markets Room: All finance/real estate majors are strongly encouraged to make use of the Capital Markets Room (CMR, first floor of Alter Hall) to become acquainted with financial market information and professional tools for analyzing securities. During the semester, CMR introductory sessions will be offered. Please check the posted schedule for these sessions.

Wall Street Journal: Students are strongly encouraged to sign up for a 15-week subscription to the WSJ. Go the web site http://WSJStudent.com to subscribe. The price is 75% off for students: 15 weeks - $29.95 or 1 year - $99.95.

Your Responsibilities (Tips to do well in this course, and any course):

- Attend class PREPARED by reading the textbook. The textbook and class sessions are compliments (not substitutes). This means it is important to read the assigned textbook chapter(s) BEFORE the class session(s), and you may find it useful to bring your textbook to class. In addition, re-reading the same textbook chapters after the class will help you in understanding the course concepts and how different financial formulas are applied. Most important, trying to catch up on the assigned readings a week before an exam is a particularly bad idea.
- Arrive before class is scheduled to start and always bring a calculator. Lateness is disruptive and missing the beginning of the class puts you at a disadvantage in following the lecture. Also, in-class exercises will often require a calculator.
- Remain engaged during class. Trying to learn in a completely passive manner is rarely effective. Ask and answer questions, and work on all in class problems. Avoid the temptation to multi-task by keeping your cell phone out of sight and out of reach.
- Do all assigned homework on time. Make the assignments a regular part of your weekly study plan. Extensions are only given for extraordinary circumstances, and not because you were mistaken about the due date.
- Check Blackboard frequently. Information about the exams and any changes in the course schedule will be announced on Blackboard.
- Ask for help when needed. Make use of your instructor’s office hours and consider tutoring options if you are having problems keeping up with the material. Inform your instructor whenever you do not understand a concept, example, or
answer to a problem/question as soon as possible. Many concepts covered in the course build on other concepts, and waiting to ask for help makes it harder to understand the material.

### Finance 3503 MyFinanceLab Homework Assignment Schedule

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<thead>
<tr>
<th>HW #</th>
<th>Chapters*</th>
<th>Available</th>
<th>Due **</th>
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<tr>
<td>1</td>
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<td>Tue, Jan-17</td>
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<td>10</td>
<td>Mon, Jan-30</td>
<td>Mon, Feb-6</td>
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<td>3</td>
<td>8</td>
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<td>9</td>
<td>Mon, Feb-13</td>
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<td>5</td>
<td>Review</td>
<td>Mon, Feb-20</td>
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<td>13</td>
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<tr>
<td>12</td>
<td>Review</td>
<td>Mon, Apr-23</td>
<td>Mon, Apr-30</td>
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* Chapter column refers to new material. Questions from prior chapters may be included.

** Due dates for each homework assignment will also be posted on MyFinanceLab and the assignment MUST be completed no later than 8:00 PM of the due date.
Finance 3503  Corporate Finance 2  Course Outline  Spring 2012

**Week 1 (Jan 19th):** Introduction and Financial Statement Analysis 1 (Chapters 1 & 2)

  1.3 The Financial Manager
  1.4 The Financial Manager’s Place in the Corporation
  2.1 Firm’s disclosure of financial information
  2.2 The balance sheet
  2.3 Balance sheet analysis

Finance 3502 (Corporate Finance 1) and Time Value of Money Review

**Week 2 (Jan 26th):** Financial Statement Analysis 2 (Chapter 2)

  2.4 The income statement
  2.5 Income statement analysis
  2.6 The statement of cash flows
  2.7 Other financial statement analysis
  2.8 Financial reporting in practice

Alliance Case 1

**Week 3 (Feb 2nd):** Stock Valuation: A Second Look (Chapter 10)

  10.1 Discounted Free Cash Flow
  10.2 Valuation Based on Comparables
  10.3 Information Competition and Stock Prices
  10.4 Individual Biases and Trading

**Week 4 (Feb 9th):** Investment Decision Rules (Chapter 8)

  8.1 Using the NPV rule
  8.2 Alternative decision rules
  8.3 Choosing between projects
  8.4 Evaluating projects with different lives
  8.5 Choosing among projects when resources are limited
  8.6 Putting it all together

**Week 5 (Feb 16th):** Fundamentals of Capital Budgeting 1 (Chapter 9)

  9.1 The capital budgeting process
  9.2 Forecasting incremental earnings
  9.3 Determining incremental free cash flow
**Week 6 (Feb 23rd):** Fundamentals of Capital Budgeting 2 (Chapter 9)

9.4 Other effects on incremental free cash flows
9.5 Analyzing the project
9.6 Real options in capital budgeting

Review for Mid-term Exam

**Week 7 (March 1st):** Mid-term Exam

Spring Break (Week of March 4)

**Week 8 (March 15th):** Determining the Cost of Capital (Chapter 13)

13.1 A first look at the weighted average cost of capital
13.2 The firm’s cost of debt and equity capital
13.3 A second look at the weighted average cost of capital
13.4 Using the WACC to value a project
13.5 Project based costs of capital
13.6 When raising external capital is costly

Review of Systematic Risk and the Equity Risk Premium (Chapter 12)

**Week 9 (March 22nd):** Raising Equity Capital (Chapter 14) and Debt Financing (Chapter 15)

14.1 Equity financing for private companies
14.2 Taking your firm public
14.3 IPO puzzles
14.3 Raising additional capital
15.1 Corporate debt
15.2 Bond covenants
15.3 Repayment provisions

**Week 10 (March 29th):** Capital Structure (Chapter 16)

16.1 Capital structure choices
16.2 Capital structure in perfect capital markets
16.3 Debt and taxes
16.4 The costs of bankruptcy and financial distress
16.5 Optimal capital structure: the trade-off theory
16.6 Additional consequences of leverage: Agency costs and information
16.7 Capital structure: putting it all together
Week 11 (April 5th): Payout Policy (Chapter 17)
  17.1 Distributions to shareholders
  17.2 Dividends versus share repurchases in perfect capital markets
  17.3 The tax disadvantage of dividends
  17.4 Payout versus retention of cash
  17.5 Signaling with payout policy
  17.6 Stock dividends, splits, and spin-offs
  17.7 Advice for the financial manager

Week 12 (April 12th): Financial Modeling and Pro-Forma Analysis (Chapter 18)
  18.1 Goals of long-term financial planning
  18.2 Forecasting financial statements: The percentage of sales approach
  18.3 Forecasting a planned expansion
  18.4 Valuing the planned expansion
  18.5 Growth and firm value

Alliance Case 2

Week 13 (April 19th): International Corporate Finance (Chapter 23)
  23.3 Internationally Integrated Capital Markets
  23.4 Valuation of foreign currency cash flows
  23.5 Valuation and International Taxation

Week 14 (April 26th): Course Wrap-up and Review

Final exam: Thursday, May 3, 3:30 – 5:30 pm Location to be announced.
  Note: The final exam will be a common final for all students of FIN 3503

Use the above schedule to guide your reading and preparation for class. Note that some topics may spillover from one week to the next.