

COURSE REQUIREMENTS AND GRADING

Grading System

Class Participation	15%
Valuation Project Part I and Part II	20%
Quiz #1 and Quiz #2	20%
Group Case	20%
Final Exam	25%

Class participation is based on your attendance and adherence to the classroom etiquette (see the section below). The quizzes and final exam are based on the readings, notes and homework problems.

Note: Make a copy of *all* of the work (except quizzes of course) that you submit to me. This will protect you against the unlikely possibility that your work is lost and allow you access to your work pending its grading and return to you.

A Note on Class Attendance

With only seven classes, it is important to attend every class. I do not give make-up quizzes, exams or allow you to turn in a case after the due date except under extraordinary circumstances. The quiz dates and case due dates are clearly noted in the schedule. Quizzes are given at the beginning of the class; so it is especially important to show up on time for these classes.

Classroom Etiquette

I have three simple rules.

1. Show up to class on time. If you are an evening program student, then I understand that you can get stuck in abnormally bad traffic, but try to allow as much time as possible in your commute to ensure that you can be here before class begins.
2. Do not leave class early unless you have checked with me beforehand.
3. Do not communicate with others during class unless it is part of a formal class discussion. That means do not talk with your classmates, do not use your cell phones (turn them off before class), and do not check the Internet or send electronic messages.

Many students have told me that they find it disruptive when students come in late, leave early, or communicate with others (through various means, including just checking the Internet) during class. It is important that we avoid these kinds of distractions for the class to go well. If you do not agree with these rules, then you should not take the class.

A Note on Academic Honesty

I will ask each of you to sign an honor pledge whenever you turn in a project or take an exam. Listed below is an example of the type of honor pledge I will ask each of you to sign when you turn in an individual case (you will also be asked to sign a pledge for group projects):

On my honor, I have not received any outside help in the completion of this project.

If you are not comfortable signing and adhering to such a pledge, then you should not take this class.

A Note on Class Participation

Class participation is important for two reasons. First, asking questions of me and answering my questions can improve everyone's understanding of the topic. Second, your questions, answers and comments in class help me gauge how well the material is being understood.

If you do not participate in class, then I may call on you. Be prepared.

The McDonough School of Business Policy on Class Attendance

Students are responsible for adhering to all course procedures and policies, including class attendance, set down by the instructor for the successful completion of a course; absence from class, for whatever reason, carries with it the obligation of making up missed work.

Faculty members should make every effort not to schedule a test, quiz or oral presentation on a major religious holiday, so as to encourage rather than discourage students from attending religious services of their choice. However, should such scheduling be absolutely necessary, every effort should be made by the faculty member to permit students to make up missed tests or oral presentations.

In no case may a faculty member assign extra work beyond normal course requirements due to an absence. Students who fail to notify their faculty members have no right to expect that they will be permitted to make up a scheduled examination, test, quiz, or oral presentation.

What is the Purpose of this Course?

This course provides an advanced explanation of how financial markets work and how you can use this knowledge to manage a firm's resources. This is an exciting course to teach and I think you will enjoy it. We will encounter many concepts that, at first glance, may appear complicated; ultimately, most of them are straightforward and you should not be intimidated. There will be some concepts that may not be quite so straightforward and will require extra effort on your part. I think that it will be worth it. Finance is a subject that offers intellectual challenges and potentially lucrative financial rewards to those who can master the material. Listed below is a delineation of the prerequisite background.

How Much Math will we use?

Most of the math consists of algebraic manipulations and proofs (refresh yourself on logarithmic rules). Basic calculus will be used in the course. The hardest part is often making the connection between the mathematical models and financial theory and practice.

Key Statistical Concepts

Modern finance relies heavily upon statistical analysis. For example, you should have had some exposure to the following topics:

Multivariate Regression Analysis
Time Series Forecasting

So, Is This a Quantitatively Oriented Course?

Yes, though the level of math and statistics is not overwhelming, you do have to think quantitatively.

Use of Excel

You need to be comfortable using Excel for this course. You do not have to know how to set up macros but it is important that you be comfortable using formulas, constructing pro forma financial statements, etc. You will be required to do some spreadsheet analysis on your own.

Use of WRDS (<http://wrds.wharton.upenn.edu/index.shtml>)

This web site contains an extensive array of accounting and financial data on all U.S. publicly traded firms and many international firms. We will make use of these data.

Use of Other On-line Computer Services

It is helpful, but not required, to be familiar with Bloomberg, Dow Jones News Retrieval and Edgar.

Key Accounting Skills

Putting your knowledge of financial theories to work requires a solid understanding of the basic principles of accounting. Most of you who choose to pursue a career in finance will spend much of your time reading accounting statements, and it is important that you understand how to interpret this information. This is not an accounting course but we will focus on how to use accounting information to value securities and to manage a firm's finances.

A Note on the Overlap of Material with the Finance I and II Course

I have a good idea of the material you covered in your Finance I and II courses, and I will often do a brief review of the introductory material for topics that were covered in these classes before I go on to the advanced material. In the past, students have found these brief reviews useful because they serve as refreshers and acquaint you with my notation and style of presentation. Do not be misled (or bored) by these brief reviews, however. We will quickly move on to more advanced material.

In summary, this course differs from the Finance I and II courses in three major respects.

First, it provides a much more detailed discussion of the concepts **introduced** in Finance I and II.

Second, it provides a much more detailed presentation of the practice of finance.

Third, it introduces some new topics.

The Bridge Between Theory and Practice

Perhaps the most rewarding part of teaching finance is the direct relevance of financial theory for practitioners and even for your own finances. Listed below is an unsolicited comment from a former student (working at JP Morgan at the time) and is indicative of the scores of unsolicited comments I have received from former students.

Professor Eberhart,

Greetings from Wall Street...

*My (job) at Morgan is going extremely well. I've had the opportunity to work on many different assignments **which virtually mirror our class** (emphasis added).*

I've worked on transactions dealing with spin-offs, share repurchases, and one merger. I just finished doing comparables for the financing portion of a very high profile deal. It continues to amaze me how much responsibility they are willing to give me.

*By the way, virtually all the corp. finance people have a copy of the **Brealey (and) Myers** (emphasis added) textbook on their desks so you can add "and everyone at J.P. Morgan uses Brealey (and) Myers" to your speech about the merits of buying the book. **The thing that surprises me most about working here is the high level at which everyone embraces academic theory** (emphasis added).*

Besides the prevalence of this material at work, it is common for interviews to involve intensive questioning about financial theory and practice.

TENTATIVE COURSE OUTLINE

Notice that this is a **tentative** course outline (though the exam/quiz dates are set, and the project/case due dates are set). I think that we can cover the material that I have listed below, but I will not hesitate to cover fewer topics if we need to spend more time on certain topics. Conversely, if we cover the material more quickly than I expect, then I can easily add material.

<u>Date</u>	<u>Chapter(s)²</u>	<u>Lecture #</u>	<u>Topic(s)</u>
1-8	BMA(6) BMA(7)	1	Introductory Quiz³ Overview of the Goal of Financial Management Brief Review of Capital Budgeting Decision Criteria and why NPV is the Optimal Criterion ADVANCED CAPITAL BUDGETING Forecasting Pro Forma Financial Statements Rules of Capital Budgeting International Capital Budgeting Projects
1-15	BMA(11) BMA(10)	2	Quiz #1: Advanced Capital Budgeting Quiz (this quiz covers Chapter 6 and 7 material) ADVANCED CAPITAL BUDGETING CONT. Forecasting Cash Flows Capital Budgeting Under Uncertainty Breakeven, Sensitivity and Scenario Analysis <i>Distribution of the Capital Budgeting Case</i> COST OF CAPITAL Estimating Components of WACC
1-22	BMA(10)	3	COST OF CAPITAL CONTINUED Estimating the Cost of Capital for International Projects The CAPM Controversy The Fama and French 3-Factor Model VALUATION Time Series Forecasting Models

²BMA refers to the Brealey, Myers, and Allen Textbook. The chapter numbers are in parentheses.

³Your score on this quiz is not part of your course grade (only the fact that you took the quiz—that is, attended the class—factors into your course grade through your class participation grade).

<u>Date</u>	<u>Chapter(s)</u>	<u>Lecture #</u>	<u>Topic(s)</u>
1-29		4	Capital Budgeting Case Due (Group) Quiz #2: Advanced Capital Budgeting and Cost of Capital Quiz (this quiz covers Chapter 11 and 10 material) MORE VALUATION Correctly Defining Cash Flows to Different Investors <i>Distribution of Valuation Project Parts I and II (Individual)</i>
2-5	BMA(4, 25)	5	Valuation Project Part I Due (Individual) VALUATION CONTINUED DEBT VALUATION The Term Structure of Interest Rates Bond Covenant Provisions
2-12	BMA (21, 22)	6	Valuation Project Part II Due (Individual) OPTION PRICING Put-Call Parity Determinants of Option Values The Binomial Option Pricing Model The Black-Scholes Option Pricing Model
2-19	BMA (23, 24)	7	MORE OPTION PRICING Viewing Stocks and Bonds as Options The Merton Bond Pricing Model Real Options
2-26			FINAL EXAM