



Syllabus
180.366, Corporate Finance
Spring 2009

This version: February 8, 2009

Location Krieger 304
Time MW 11:00 to 11:50

Instructor Greg Duffee
Office Mergenthaler 463
Office hours M 2:00 to 3:00 and W 1:30 to 2:30

Course TA Prathi Seneviratne
Office Mergenthaler 466
Office hours Tu 3:00 to 3:50 and W 3:00 to 4:00

Course web page <http://www.econ.jhu.edu/courses/366>

The web page is where all lecture notes, problems, solutions, and other material will be posted. Students are required to be aware of what material is on the site.

Course email address econ_corpfin@jhu.edu

Use this address to reach the instructor and TA. Do not use individual email addresses; such email tends to get lost in a barrage of other email.

Subject matter

This course is an introduction to the financial management of a corporation. Students study the following broad questions. How should a firm decide whether to invest in a new project? How much debt and equity should a firm use to finance its activities? How should a firm pay its investors? How do taxes affect a firm's investment and financing decisions? What determines the value of a firm? The emphasis throughout the course is on the economic principles that underlie answers to these questions.

Prerequisite

The prerequisite is 180.301, Microeconomic Theory, or permission of the instructor. Strictly speaking, the material in Micro Theory is helpful, but not essential. It is listed as a prerequisite because the pace of Corporate Finance will pose problems for students who do not already have a strong grasp of microeconomic intuition. Mathematical aptitude is important, but no advanced mathematics is required. Differential calculus and linear algebra might show up, but not in critical applications.

Textbook

Corporate Finance: The Core, by Jonathan Berk and Peter DeMarzo, published by Pearson/Prentice Hall. There is only one edition (the first). This text is the first 19 chapters of a longer text by the same authors titled *Corporate Finance*.

The text is available from the campus bookstore. It is also on reserve at Eisenhower library. (The longer text is also on reserve.)

Software

At the campus bookstore, the text is bundled with a password giving a single user access to “MyFinanceLab,” an on-line homework system associated with the text. The software can also be purchased separately for \$40 from http://www.myfinancelab.com/student_wizard.php.

Exams

There are two in-class exams and a final. The dates of the in-class exams are listed in the course outline at the end of the syllabus. The registrar's office has determined that the final exam is from 2:00 pm to 5:00 pm on Wednesday, May 13. There is no “senior option” in this course. Exams are closed book and (almost) closed notes. You may bring one 3” by 5” index card on which you may write on both sides. You may bring a calculator, but not a computer.

Each student must do their own work on their exams. In addition, they must not give any assistance to other students. Students are expected to know and understand their ethical responsibilities as described in the Constitution of the JHU Ethics Board, <http://ethics.jhu.edu/constitution.html>. If you are a student with a disability who needs accommodation in this class, please obtain an accommodation letter from the Student Disability Services Office (385 Garland, (410) 516-4720, studentdisabilityservices@jhu.edu, web.jhu.edu/disability) and meet with me as early in the term as possible to make arrangements for your approved accommodations specified in the letter.

Grades

Component Percent of grade

First exam	25
Second exam	25
Final exam	40
Instructor discretion	10

The “instructor discretion” component primarily consists of class participation. As of the date this syllabus was written, no distribution of final grades has been determined. This is the first time I have taught this course to undergraduates, and the first time I have taught undergraduates at Johns Hopkins. I hope to be impressed by your collective performance.

Optional homework

MyFinanceLab is an on-line homework system that is linked to the text. For each chapter, there is a set of questions—most of which are drawn from the end-of-chapter questions in the text. The on-line system randomly changes the numbers in the questions, so that any two students do not necessarily face the same questions.

This homework system is optional. Your course grade will not be affected by your performance on the homework. You need not use the system at all. However, I strongly encourage you to use it. It not only measures your understanding of the material, but can help you learn by providing you hints to questions. Your use of the system will also help improve the course. I hope to use the aggregate performance on the homework to help judge whether the material is understood by students. Naturally, that tool is useful only if many students use the homework system. To encourage its use, the exams will be structured so that at least half of the questions will bear a resemblance to those asked in the optional homework assignments.

To use the system, you require a password (see “Software” above) and a computer with Internet Explorer. Registering and setting up your account should take at most 15 minutes. The software requires that a couple activeX files be installed on the computer and that the computer accept cookies. Krieger Lab should already have the activeX files installed on their Windows machines. To link to this course, look under “Johns Hopkins University” (not “Johns Hopkins” – don’t ask me why) for either the instructor name “Duffee” or the course “180.366”.

Non-optional homework

I will often assign problems. Students should attempt to solve the problems, either individually or in groups. (My recommendation is that you work in groups.) However, no solutions are to be handed in. Instead, I will randomly call on students to discuss their answers during class. I use this approach for three reasons. First, I believe it is important for students to learn how to defend their ideas in a formal group setting. Second, the resulting discussion gets the class more involved in the course material. Third, we do not have to grade problem sets. A student’s performance in class discussions may affect his or her final grade (see “instructor discretion” above).

Course outline

This outline lists the topics to be covered during each class session. The timing of the topics is subject to change. However, the dates of the two exams are fixed. All chapters refer to *Corporate Finance: The Core*, by Jonathan Berk and Peter DeMarzo. Owing to the pace of the lectures, I strongly recommend that you read the relevant chapters prior to class.

Part I. Basic tools

M Jan 26	Course overview and intro to financial statement analysis	Ch 1, 2
W Jan 28	Snow Day	
M Feb 2	Financial statement analysis	Ch 2
W Feb 4	Present values and the NPV rule	Ch 3, 4
M Feb 9	More detail about discounting cash flows	Ch 4, 5
W Feb 11	Investment decision rules	Ch 6
M Feb 16	Introduction to capital budgeting	Ch 7
W Feb 18	Capital budgeting	Ch 7
F Feb 20	<i>Bond valuation; introduction to stock valuation</i>	<i>Ch 8, 9</i>
M Feb 23	Stock valuation	Ch 9
W Feb 25	First exam	

Part II. An introduction to valuing risky cash flows

M Mar 2	The price of risk	Ch 10
W Mar 4	Diversification	Ch 11
M Mar 9	The capital asset pricing model	Ch 12
W Mar 11	Alternative models	Ch 13

Part III. Financing and project valuation

M Mar 23	Capital structure in a perfect market	Ch 14
W Mar 25	Capital structure in a perfect market	Ch 14
M Mar 30	Debt and taxes	Ch 15
W Apr 1	Debt and taxes	Ch 15
M Apr 6	Debt and agency costs	Ch 16

180.366
Syllabus
W Apr 8

Spring 2009

Second exam

M Apr 13	Debt and agency costs	Ch 16
W Apr 15	Payout policy	Ch 17
M Apr 20	Capital budgeting with leverage	Ch 18
W Apr 22	Capital budgeting with leverage	Ch 18
M Apr 27	Capital budgeting: case study	Ch 19
W Apr 29	Capital budgeting: case study	Ch 19