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Syllabus for ECON 448 – Corporate Finance
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1. Course Description

This course introduces you to the basic principles that guide corporate managers in making their investing and financing decisions. It also provides the analytical tools for determining the value of a corporation and assessing the effectiveness of corporate management in maximizing that value.

The goal is to provide students with a solid understanding of the basic ideas of modern corporate finance as well as the analytical and quantitative tools necessary to be successful in the modern financial world.

 The course starts by presenting a theory of asset valuation, which is the cornerstone of financial decision making. We apply this theory to the valuation of financial assets (bonds and stocks), as well as to the real investment decision (projects) of the firm. Next, we examine the capital structure decision, and how it may affect firm value. We shall also study how firms raise capital, agency conflicts and dividend policies. On the way, we will present the centerpieces of modern financial economics*:* the *capital asset pricing model,* the *arbitrage pricing model*, the *efficient market hypothesis*, the *option-pricing model*.

In a nutshell, we will argue that the manager should pick projects yielding a return greater than the minimum acceptable hurdle rate. He/she should choose a financing mix that maximizes the value of the project undertaken and matches the assets being financed. If projects with superior returns (above the hurdle rate) are not available, the managers should return the cash to the owners (stockholders). Whether cash is returned as dividends or through stock repurchases represents the *dividend (payout) decision*.

After taking this class you should be able to fully understand the major issues concerning investors, financial managers and other players in the financial markets. Also if you interview for a job related to Finance you should appear as well-read, aware of the important issues and with a good grasp of the pertinent tools.

2. Prerequisites

ECON 370, ACCO 305, and (STAT280 or STAT310). Knowledge of calculus is required; familiarity with Excel is assumed.

3. Course Materials

Required textbook: Brealey, Myers and Allen, *Principles of Corporate Finance*, 9th Edition, Irwin McGraw Hill (ISBN 0073368695).

Additional reading: Bodie, Z., A. Kane, A. Marcus, *Investments*, Irwin McGraw Hill.

Calculator:
You will need a simple calculator that handles exponents and logarithms.

Course website: Our class has a page on OWL-Space. Go to *https://owlspace-ccm.rice.edu/portal* and log in using your Rice NetID. A copy of the syllabus will be available online. Material from lectures, as well as important announcements will also be posted on the website; it is your responsibility to visit it frequently. The homework assignments will be available for downloading on the class homepage. The homepage also provides links to some useful web sites related to Economics.

4. Homework Assignments

There will be six homework assignments, which will be posted on the class webpage. Their due dates will be clearly specified. Solutions will be posted on the due date, thus no late assignments are accepted. If a medical certificate is provided, the average of the other homework sets will be applied towards the missed homework.

Homework will consist of problems and data exercises. In order to receive credit on analytic homework questions all intermediate steps must be shown (if you provide a correct answer without explaining how you derived it, you will get only a low partial credit). Excel will be needed to solve some of the problems.

You can work with some of your classmates to derive solutions to homework assignments, as long as each of you has a fair contribution. However you cannot receive help from anyone outside the class (such as a tutor), and are not allowed to use the textbook's solution manual (or any other resource that contains solutions of the assigned problem sets). If you choose to form a study group with some of your classmates, you still have to write and submit the homework individually, and acknowledge the help you received. You should also be able to reproduce (with ease and without any help) the solution you submitted. Keep in mind that homework

assignments are the best preparation for the exams. A superficial approach to homework will most certainly be reflected in low exam scores.

Solutions to homework assignments need not be typed, but the handwriting must be legible. The solutions must be dropped in the teaching assistant's mailbox located in BB 277. Your papers will be graded by the teaching assistant and returned the following week in the class mailbox, located on the second floor of the Baker Institute (in front of my office).

The teaching assistant will be available during her office hours to answer questions about previous homework assignments and the material covered in class. She will never help to solve specific questions of an upcoming homework assignment. The teaching assistant is also ready to organize some additional review sessions regarding the homework assignments, if requested by some students.

5. Exams

There will be two partial exams and a final exam. All exams are closed-book, but you can bring one regular size (i.e., 8x11in) sheet of notes (one side only for the partial exams, two sides for the final).

Partial Exams. Two partial exams will take place on Monday February 8th and Wednesday March 17th, during regular class hours. The exams will be closed-book. The questions could be conceptual or consist in solving exercises. They will cover the material of the classes taught since the last partial exam.

The average of the scores obtained at these exams will account for 30% of the final numerical score. Since the dates of the exams are announced long time in advance, individual requests to modify the date of an exam will not be accepted. If a partial exam is missed, the final will carry the extra weight. In exceptional cases, if any of partial exams must be missed for a documented excuse, the student can either reschedule the exam or choose to have the final carry the extra weight.

Final Exam. The final exam will be a three-hour written exam consisting mostly of exercises directly related to the material covered in class and similar to those solved in the homework assignments. It will be comprehensive and account for 45% of your final numerical score.

You need to bring a simple calculator that handles exponents and logarithms for all the exams. No devices that can be connected to the net or that can serve as database storage (i.e., palms) are allowed.

6. Grading

The final numerical score will be the weighted average of the scores obtained on the homework assignments, the two partial exams and the final exam. The weights are defined as follows:

- 25% for homework assignments
- 30% for the two partial exams (15% each)
- 45% for the final exam

The following table will be used to convert the final numerical score on the course to letter grades. I reserve the right to lower the cutoffs but not to raise them.

Score > 95%	A+
Score ≤ 95% and > 85%	A
Score ≤ 85% and > 80%	A-
Score ≤ 80% and > 75%	B+
Score ≤ 75% and > 70%	B
Score ≤ 70% and > 66%	B-
Score ≤ 66% and > 63%	C+
Score ≤ 63% and > 60%	C
Score ≤ 60% and > 55%	C-
Score ≤ 55% and ≥ 50%	D
Score < 50%	F

Class participation is strongly encouraged. Students who enhance the quality of the class discussion may receive up to 3% bonus points towards the final grade.

I do not discuss grades or grading policies with students under any circumstances. If you discover mistakes in grading, you may submit a written request that your material be re-graded. Re-graded materials will be considered in their entirety. Once the final grade has been awarded, re-grading requests are handled by the University.

7. Review Sessions

The teaching assistant will organize one review session before each partial exam. The exact dates will be announced later. Students are encouraged to participate to these sessions and to prepare specific questions.

8. Rice Honor Code

The Rice Honor System (http://www.ruf.rice.edu/˜honor/) applies to all work in the class. For each item submitted for grading, please print and sign the entire honor code as follows: "On my honor, I have neither given nor received any unauthorized aid on this (examination, quiz or paper)." [Your signature]

Please be aware that you should clearly acknowledge, in writing, any authorized help you receive (that includes but it is not limited to Internet resources, books and help

from your colleagues). Failure to do so is considered plagiarism and thus a violation of Rice's honor code!

9. Disability-Related Accommodations

If you have a documented disability that will impact your work in class, please contact me to discuss your needs. Additionally, you will need to register with the Disability Support Services Office in the Ley Student Center. All discussions will remain confidential.