

Duke University Department of Economics

Economics 181
CORPORATE FINANCE

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Office Hours: Tues & Thurs, 10 am - noon

Course Description: This course is about how corporations make their investment and financing decisions. The purpose of this course is to acquaint you with the most important financial issues facing the managers of the corporation, and some of the analytical tools that are used to make these financial decisions. This course will rely heavily on the ideas and techniques you learned in microeconomics, statistics, and econometrics courses.

Texts and Software:

Principles of Corporate Finance by Richard Brealey and Stewart Myers, McGraw Hill, 2008, 9th Edition. In addition to hard copies, electronic versions of the text are also available through the publisher's website: <http://ebooks.primisonline.com>

Course info site: <http://courses.duke.edu>

I strongly encourage you to read a current business periodical such as *The Wall Street Journal* or *Business Week*. Excel is also very useful in this course, and you may wish to use EViews or Stata as well.

Requirements:

This course will be conducted as a seminar: discussion will replace lectures as much as possible. Therefore, it is essential that you attend class and come prepared. Within the first three sessions, I will make up a seating chart. Class participation will constitute approximately 20% of your final mark.

A written exercise will be due each week. The exercises will alternate between short writing assignments and problem sets. The short writing assignments will be based on assigned readings and will usually be assigned on

Friday to be handed in the following Wednesday.

You will have a week for the problem sets, and they will also be due on Wednesdays.

On the Fridays after a problem set is handed in, there will be a quiz. The quizzes will cover material in the problem sets as well as the lectures. They will be administered as soon as class begins, and will take 20-25 minutes to complete. If you arrive late to class on a quiz day, you may have the remaining quiz time to work the quiz. If you arrive after the quizzes have been collected, you will not be allowed to make up the quiz.

In addition to the weekly assignments, there will be a term-paper-sized writing assignment due close to the end of the semester.

There will be a final exam held in class toward the end of the semester.

I also reserve the right to require other graded, in-class or take-home exercises.

Late Paper Policy

All written assignments—problem sets as well as papers—will be considered due at the beginning of class on the day they are to be handed in. I will not accept late papers. Extensions will be granted only in cases of illness or certifiable family emergency. Be sure to bring your documentation with you.

If you miss a quiz because of an excused absence, you have one week from the date of the quiz to make it up. Makeups can be conducted via email.

I will post an assignment schedule on the website to help you plan.

Duke University's Academic Honor Code

The Duke Community Standard and Definitions

I. The Duke Community Standard

Duke University is a community of scholars and learners, committed to the principles of honesty, trustworthiness, fairness, and respect for others. Students share with faculty and staff the responsibility for promoting a climate of integrity. As citizens of this community, students are expected to adhere to these fundamental values at all times, in both their academic and non-academic endeavors.

The Pledge

Students affirm their commitment to uphold the values of the Duke University community by signing a pledge that states:

1. I will not lie, cheat, or steal in my academic endeavors, nor will I accept the actions of those who do.
2. I will conduct myself responsibly and honorably in all my activities as a Duke student.

The Reaffirmation

Upon completion of each academic assignment, students will be expected to reaffirm the above commitment by signing this statement: "I have adhered to the Duke Community Standard in completing this assignment." [Student Signature]

II. Definitions

Lying is the expression of a material untruth made with the intent to mislead another or with reckless disregard for the truth of the matter asserted. The material untruth may be uttered or presented, verbally, electronically, or in writing, to another member of the University community (student, faculty or staff). An untruth is material when it relates to or affects in a significant way activities of legitimate concern to the University community.

Cheating is the act of wrongfully using or attempting to use unauthorized materials, information, study aids, or the ideas or work of another in order to gain an unfair advantage. It includes, but is not limited to:

- plagiarism;
- giving unauthorized aid to another student or receiving unauthorized aid from another person on tests, quizzes, assignments or examinations;
- using or consulting unauthorized materials or using unauthorized equipment or devices on tests, quizzes, assignments or examinations;
- using any material portion of a paper or project to fulfill the requirements of more than one course unless the student has received prior permission to do so;
- intentionally commencing work or failing to terminate work on any examination, test, quiz or assignment according to the time constraints imposed; or
- failing to adhere to an instructor's specific directions with respect to the terms of academic integrity or academic honesty.
"Plagiarism" occurs when a student, with intent to deceive or with reckless disregard for proper scholarly procedures, presents any information, ideas or phrasing of another as if they were his or her own and does not give appropriate credit to the original source. Proper scholarly procedures require that all quoted material be identified by quotation marks or indentation on the page, and the source of information and ideas, if from another, must be identified and be attributed to that source. Students are responsible for learning proper scholarly procedure.
The term "assignment" includes any work, required or volunteered, and submitted to a faculty member for review and/or academic credit.
All academic work undertaken by a student must be completed independently unless the faculty member or other responsible authority expressly authorizes collaboration with another.

Stealing is the intentional taking or appropriating of the academic work product of another without consent or permission and with the intent to keep or use the academic work product without the owner's or the rightful possessor's permission.

Responsible and Honorable Conduct means adhering to state and federal laws, residential and academic regulations, and the policies of Duke University as explicated in the *Bulletin of Information and Regulations of Duke University*.

III. Students' Obligation to Report Potential Cases of Academic Dishonesty. Under the Duke Community Standard, students affirm their commitment not to lie, cheat, or steal in academic endeavors, *nor accept the actions of those who do.*

Therefore, upon learning of or witnessing a potential case of academic dishonesty, students are required to provide immediately:

- a signed written statement of the observed behavior to the appropriate faculty member and/or to the Associate Dean for Judicial Affairs (Dean K.C. Wallace, Box 90946, 668-3853); and
- the name or description of the person(s) alleged to have committed the violation.

Students who knowingly do not fulfill this obligation are themselves subject to sanctions.

To this standard, I add the following comments.

Any kind of academic dishonesty is a Code violation, including witnessing a Code violation and not reporting it. The most serious type of academic dishonesty is handing in someone else's work and claiming that it is your own. This includes, in the context of essay writing, plagiarism. It also includes collaborating, *even with a student who is not in this course or section*, on any graded work that is supposed to be done independently. All quizzes and exams are to be done independently, as well as all paper writing. I may allow collaboration on other exercises, and if so, I will explicitly state the type and extent that I will allow. If I do not specify, you are to assume that you must work independently.

Yet another type of academic dishonesty is using work that is not original--that is, recycling your own or other students' work from other courses or sections of this course to be handed in to meet the requirements of this course, or using one piece of work to satisfy the requirements in two different courses simultaneously. In the latter case, I may allow this **if** you clear this with me ahead of time.

I believe that you are honest. Nevertheless, if I see evidence of any academic dishonesty, I will confront it according to the procedures described in the Bulletin of Duke University.

Schedule of Topics and Readings

The readings from the text are listed with the topics covered. Nearly every topic will be supplemented with outside readings. These will be announced in class and posted on the course website.

PART ONE: Valuation

A. Financial Management and Financial Performance

Reading Assignment: Brealey, Chapter 1; Brealey, Chapter 29

B. Net Present Value and Discounting

Reading Assignment: Brealey, Chapters 2-3;

C. Valuing Common Stocks

Reading Assignment: Brealey, Chapter 4;

D. Making Decisions Using NPV Rules

Reading Assignment: Brealey, Chapters 5, 6, and 26

PART TWO: Risk, Return, and Market Efficiency

A. Modeling the Risk-Return Tradeoff

Reading Assignment: Brealey, Chapters 7-8

B. Finding Discount Rates for Risky Projects and Debt

Reading Assignment: Brealey, Chapter 9 & Chapter 24

PART THREE: Capital Budgeting

A. Debt Financing and MM

Reading Assignment: Brealey, Chapters 17-18

B. Valuation in Light of MM: Adjusted Present Value

Reading Assignment: Brealey, Chapter 19

C. Dividend Policy

Reading Assignment: Brealey, Chapter 16

PART FOUR: The Market for Corporate Control

Reading Assignment: Brealey, Chapters 33-34

PART FIVE: Risk Management

A. Goals and Practices of Risk Management

Reading Assignment: Brealey, Chapters 27-28

B. Options—Financial and Real

Reading Assignment: Brealey, Chapters 20-22