

**Economics 329: Corporate Finance**  
**Spring 2016**  
**Tuesdays and Thursdays 10:30-11:50am in PAC 107**

**Professor:** Abigail Hornstein  
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**Phone:** 860-685-3049  
**Office Hours:** Tuesdays, Wednesdays, and Thursdays 2-3:30<sup>1</sup>  
**Teaching Assistant:** Laura Corcoran (lcorcoran); optional TA sessions as indicated on Mondays 8-9:30pm in PAC 107

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**General Course Information**

**Purpose:** The course aims to develop an understanding of the applications of economics to the study of financial markets, instruments, and regulations. The objective is to provide an understanding of the theory of corporate finance and how it applies in practice. Students will explore the potential and limitations of financial theory in dealing with real-world problems.

**Assignments and Credit:**

Class participation	5%
Problem Sets (5)	10%
Group reports (5)	10%
Group presentation & final report	5%
<i>Literature review</i>	
- topic selection	1%
- final paper	19%
Exam 1	25%
Exam 2	25%

**Readings:** The required text is Ross, Westerfeld, Jaffe, and Jordan, *Corporate Finance, 11<sup>th</sup> Edition*, ISBN 978-00786175-9 (or the 10<sup>th</sup> edition: ISBN 978-0078034770).<sup>2</sup> Chapters 1-4 are available through the course moodle (albeit from different editions), and a hard copy of the textbook is available at the reserve desk in Olin. Chapter numbers in the course schedule refer to this text.

I expect you to read the *Wall Street Journal*, *New York Times* or *Financial Times* daily. Advance notice: exam questions, especially qualitative questions, will be heavily skewed towards topics covered in the WSJ and explored in group reports. Additional short items will occasionally be handed out in class and/or made available on the course moodle.

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<sup>1</sup> Exceptions: no office hours on Wednesday March 2, Thursday March 3, Tuesday April 12, and Wednesday April 20. It is unlikely, but possible, that there will be other changes to this schedule.

<sup>2</sup> If students purchase international editions of our textbook, please note that the international editions of finance textbooks often have different examples and different questions (and this is not a problem).

**Grading Policy:** I will use the “Dear Abby” scale for grading: 0, 1, 2 (the “hurdle” level), 3, 4 (minor problems), or 5. To find your letter grade equivalent, divide by the number of questions to get your average score on the 0-5 scale. Then convert according to: 4.5=A, 4.0=A-, 3.7=B+, 3.3=B, 3.0=B-, 2.7=C+, 2.3=C, 2.0=C-, 1.7=D+, 1.3=D, 1.0=D-.

Problem sets will receive a check minus, check, or check plus. The 0-5 scale equivalents are: check plus, 4.5, check 3.4, and check minus 2.3. Late problem sets will receive a grade of 1.0 irrespective of the quality of the work shown.

**Class Participation:** Class attendance is expected. You are expected to complete all assigned readings before class. I will use our class-time to focus on the most important or complex topics.

If you know that you will have to be late and/or leave early, please let me know in advance. Excessive absences, late arrivals or early departures will lead to a lower class participation grade.

Please adhere to the following policies as your participation grade depends also on these:

- Be on time for class.
- Avoid getting up during class sessions unless absolutely necessary. This is not only very disruptive to all people in the classroom but shows a lack of respect for all present.
- No use of computers, tablets, or cell phones during class sessions without instructor consent.
- Please switch your phones to “airplane mode” and turn off the ringer volume.

Students who meet the above expectations will receive a *B* for class participation. To earn a higher grade a student will need to ask insightful questions as well as answer questions posed by me or others. I will give a *C* or lower for class participation to students who never participate in class or who are often not able to answer questions.

**Problem Sets:** Problem sets are assigned regularly (every other week). They have several purposes: to review and extend concepts from lecture or the textbook; to introduce related topics not covered in lecture; and to provide feedback on your comprehension of the material to date.  
*Note: problem sets will occasionally cover material before it is covered in class.*

There will be no TA sessions to help with assignments. Your TA is not allowed to answer any questions prior to your submitting problem sets or group reports.

Problem sets will be due at 1pm on Wednesdays, and should be submitted via the Econ 329 slot in the departmental locked box. Late assignments will only get a check-minus irrespective of quality as solutions will be available online as soon as the deadline for submission passes.

Grading will be on a check-plus, check, check-minus scale. Quick guide to problem set grades:

- Check-plus: all questions answered correctly or all questions answered using right strategies (but with possible computational errors).
- Check-minus: some questions skipped or many questions answered incorrectly.
- Check: almost everything in between.

Up to three people may cooperate on each problem set; when students submit joint problem sets all students will get the same grade. Please do *not* list any students' name on the problem sets; instead, please put students' WesIDs. Assignments will be returned in class.

**Optional case studies:** In the weeks when there is a problem set due on Wednesday, the TA will hold an optional session on Monday nights to cover a related case study. To repeat: the TA is not allowed to help you with any aspect of your homework but these case studies greatly complement the assignments even as there is often minimal direct overlap. Case studies will be posted to the moodle ahead of time; solutions will be available only at the sessions. These case studies are all questions that could constitute problem sets but will not be assigned for credit.

**Group project:** Working as teams of 4-5 students, you will analyze publicly-listed U.S. firms in an industry (one firm per student in group). You may define industry in several ways: using SIC codes, Fama-French classification, or popular interpretation (e.g., you could tell me a music recording firm, movie production studio, and tv broadcaster constitute "entertainment"). Financial institutions, insurance and real estate companies, privately held, and/or foreign companies are not appropriate. I recommend you avoid industries that have had many major bankruptcies in recent years as that will greatly complicate much of your work without providing a commensurate increase in knowledge. A small number of companies are "off limits" due to usage as examples in my courses or coverage in the fall 2015 section of this course.

Each team will work together throughout the semester to complete five group reports, a final analysis and a presentation; all students on a team will receive the same grade. In these assignments you will examine the economic fundamentals, financial performance and corporate strategy of firms in your industry. You will need historical accounting data (obtained from Research Insight and ValueLine) to answer these questions.

All assignments must be submitted to the appropriate folder in the course moodle in doc or docx format so that they can be edited in tracking mode. [Google docs and pdfs will not be acceptable.] All assignments should be titled using this convention "Group Name Assignment" (e.g., "Hornstein 1" for the Hornstein group's first report). The documents will be edited and graded and then returned via email with "AH" added to the title to indicate that I've added my comments and a group grade.

The group presentations will be scheduled for the registrar-assigned final exam slot for our course, Wednesday, May 11, 9am-12noon. The final group report will be collected at this time; more information on this report will be available towards the end of the semester.

**Computer work:** Some of the problem sets and the group project will involve extensive use of Excel. Wesleyan subscribes to a comprehensive corporate finance database, Research Insight, through which you can retrieve Compustat data (i.e., annual accounting level data for publicly listed U.S. firms), and ValueLine which aggregates some of the same information. You can use alternative data-sources for your work so long as you do not need formal technical support.

Manolis Kaparakis, head of the QAC, will hold two sessions on Wednesday, February 3 from 4:15-5:30pm and Thursday, February 4 from 12-1pm, both in Albritton 204. A google docs

sign-up sheet will be circulated ahead of time. Please do not consider this session to be optional. You will need these skills for at least half of the problem sets, and it will be difficult, if not impossible, for you to master the material without these skills.

**Research Paper:** Your paper will be an in-depth exploration of any topic in corporate finance. The project will have two components: a brief proposal, and a literature review. The literature review should be about 10 pages long (not including references, appendices or exhibits), double-spaced, 12 point font, with one-inch margins. Excessive length is generally detrimental to the quality of your work. Papers cannot be longer than 13 pages; at the low end: 8 pages is probably the minimum.

*Proposal:* A 1-2 paragraph email should be sent to me no later than 1pm on Fri., March 25<sup>th</sup>. Do not attach it in a document; it must be in the body of your email. The proposal should describe the topic of your paper, and can also include a tentative bibliography of works that you have already consulted or plan to consult in the course of your research. (Note: bibliographic references are not expected at this rather early date but may be useful for getting more substantive feedback and guidance.) In the event that multiple students propose similar topics, I'll help them find ways to differentiate their topics.

*Literature review:* The paper is due no later than 1pm on Wednesday, April 13<sup>th</sup>. This review of the academic literature will provide a meta-analysis of academic research on your topic. It will summarize the theoretical and empirical arguments and evidence regarding this issue.

*Evaluation:* Grading is based primarily on the quality of your analysis. However, I expect your papers to be well-written and free of any grammatical, logical, or spelling errors. You are encouraged to take advantage of the writing workshop on campus.

*Late submissions:* Late submissions are penalized at the rate of one letter grade per day late.

**Turnitin:** In addition to submitting your papers directly to me, the final paper must also be submitted by you to the class folder on turnitin.com by midnight on the appropriate due date. I have already set up a folder for these papers. (Obviously, if you have non-computer-readable attachments, you will not need to upload those into the system.)

For instructions on how to use turnitin.com, follow the instructions for students on the Wesleyan library website at <http://www.wesleyan.edu/libr/turnitin/>. Once you have set up your account, “enroll” in this course – the class ID number is 11538624 and the password is “econ329”.

**Exams:** I have posted to the course moodle the exams from the last offering of this course. Please note that these should be viewed as guides to the types and quantities of questions I might consider fair to ask on exams. However, please note that I do not feel any obligation to structure exams similarly year after year as course time is allocated slightly differently in each offering of a course. While you can use either a calculator or Excel to complete the problem sets, you will need a calculator for the exams.<sup>3</sup>

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<sup>3</sup> If you do not already have a calculator, it is not necessary for you to buy a financial calculator.

*Exams will be given at the scheduled times only. Please do not enroll for this course if you cannot attend the scheduled exams. Attendance at review sessions is recommended but optional.*

**Honor Code:** In accordance with the Honor Code, submitting another person’s work as your own constitutes plagiarism and will not be tolerated. *To put this in colloquial terms, unless you personally came up with the solutions and words that you are attaching your name to, it is not your work.* If you have any questions about the application of the honor code, please contact me.

**Students with Disabilities:** Wesleyan University is committed to ensuring that all qualified students with disabilities are afforded an equal opportunity to participate in and benefit from its programs and services. To receive accommodations, a student must have a documented disability as defined by Section 504 of the Rehabilitation Act of 1973 and the ADA Amendments Act of 2008, and provide documentation of the disability. Since accommodations may require early planning and generally are not provided retroactively, please contact Disability Resources as soon as possible. If you believe that you need accommodations for a disability, please contact Dean Patey in Disability Resources, located in North College, Room 021, or call 860-685-5581 for an appointment to discuss your needs and the process for requesting accommodations. Information can be found at <http://www.wesleyan.edu/studentaffairs/disabilities/>.

**Missed Assignments:** Should a personal emergency necessitate missing a scheduled exam, contact me as soon as possible **prior to the exam date** to arrange for an alternative. Any such absence requires written certification from the Deans' Office. *Unexcused absences will result in a failing grade for the course.*

### Course Schedule

In the readings column: numbers with no letters mean chapters in our textbook; all other readings are available on moodle. The midterm exams will be given during class; assignments will be posted to moodle. All deliverables are due by 1pm on the date indicated.

<b>L#</b>	<b>Date</b>	<b>Topic</b>	<b>Readings</b>	<b>Deliverables</b>
1	Thurs. Jan. 21	Overview of course	1	
2	Tues. Jan. 26	Financial statements	2	List of group members (email, 1/27)
3	Thurs. Jan. 28	Financial statements	2	<b>Group 1 (1/29)</b>
	<i>Mon. Feb. 1</i>	<i>Optional case study session with TA in PAC 107, 8-9:30pm</i>		
4	Tues. Feb. 2	Financial statement analysis	3	
	Wed. Feb. 3 <sup>rd</sup> 4:15-5:30pm or Thurs. Feb. 4 <sup>th</sup> 12-1pm:	Intro to ValueLine and Research Insight; Albritton 204		
5	Thurs. Feb. 4	Financial statement analysis; DCF valuation	3, 4	<b>PS 1 (2/3)</b>
6	Tues. Feb. 9	DCF valuation; Investment rules	4, 5	
7	Thurs. Feb. 11	Investment rules	5	<b>Group 2 (2/10)</b>

<b>L#</b>	<b>Date</b>	<b>Topic</b>	<b>Readings</b>	<b>Deliverables</b>
	<i>Mon. Feb. 15</i>	<i>Optional case study session with TA in PAC 107, 8-9:30pm</i>		
8	Tues. Feb. 16	Guest speaker: David Weild '78	(see moodle)	
9	Thurs. Feb. 18	Investment rules; Investment decisions	5, 6	<b>PS 2 (2/17)</b>
10	Tues. Feb. 23	Investment decisions; Risk analysis and capital budgeting	6, 7	
11	Thurs. Feb. 25	Risk analysis and capital budgeting; Bond valuation	7, 8	<b>Group 3 (2/24)</b>
12	Tues. Mar. 1	Bond valuation	8	
	<i>Tues. Mar. 1, 6-8pm: Drop-in review session with professor for Econ 328 and 329 in PAC 107</i>			
	<i>Wed. Mar. 2, TBD time: Drop-in review session with TAs for Econ 328 and 329 in TBD room</i>			
	Thurs. Mar. 3	<b>Exam 1</b> (through L12)		
	<i>Mon. Mar. 21</i>	<i>Optional case study session with TA in PAC 107, 8-9:30pm</i>		
13	Tues. Mar. 22	Stock valuation	9	<b>PS 3 (3/23)</b>
14	Thurs. Mar. 24	Risk and return; CAPM	10, 11	<b>Lit review topic email (3/25)</b>
15	Tues. Mar. 29	CAPM; Arbitrage pricing theory	11, 12	
16	Thurs. Mar. 31	Arbitrage pricing theory; Risk and cost of capital	12, 13	<b>Group 4 (3/30)</b>
	<i>Mon. Apr. 4</i>	<i>Optional case study session with TA in PAC 107, 8-9:30pm</i>		
17	Tues. Apr. 5	Market efficiency	14	
18	Thurs. Apr. 7	Long-term financing; Capital structure	15, 16	<b>PS 4 (4/6)</b>
19	Tues. Apr. 12	Capital structure	16	
20	Thurs. Apr. 14	Capital structure	17	<b>Lit review (4/13)</b>
21	Tues. Apr. 19	Valuation and capital budgeting for levered firms	18	
22	Thurs. Apr. 21	Levered firms; Payouts	18, 19.1, 19.3	<b>Group 5 (4/20)</b>
	<i>Mon. Apr. 25</i>	<i>Optional case study session with TA in PAC 107, 8-9:30pm</i>		
23	Tues. Apr. 26	Payouts; Raising capital	19.4, 19.9, 19.10, 20	
24	Thurs. Apr. 28	Raising capital; Corporate governance	20, Governance	<b>PS 5 (4/27)</b>
	<i>Mon. May 2, 6-8pm: Drop-in review session with professor for Econ 328 and 329 in PAC 107</i>			
	Tues. May 3	<b>Exam 2</b> (all material since first exam)		
	Wed. May 11	<b>Group presentations during registrar-assigned exam slot (9am-12noon)</b>		