Duke University Department of Economics

Economics 373
CORPORATE FINANCE

Instructor: Connel Fullenkamp
Office: 329D Social Science
Phone: 919-660-1843
Email: cfullenk@duke.edu
Office Hours: Tues n Thurs 1 – 3 pm and by appointment.

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, Stewart Myers and Franklin Allen, McGraw Hill. You can buy or rent the latest edition, but older editions of the text are also fine, though it changes a great deal prior to the 6th edition.

Course info site: https://sakai.duke.edu

I strongly encourage you to read a current business periodical such as The Wall Street Journal. Excel is also very useful in this course, and you may wish to use Stata or another econometrics package as well. You should be able to obtain a costless digital-only subscription by going to wsj.com/activateschool and setting up your account. On the other hand, if you would prefer a print edition in addition to the digital one, you may obtain a 15-week subscription in digital plus print for a very low price using this link: https://r.wsj.com/PROFug50
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 Wednesday or Friday to be handed in the following Monday. All essays are to be handed in electronically, in the Sakai drop box, in PDF format.

You will have a week for the problem sets, and they will also be due on Mondays. You will need to hand in hard copies of your problem set answers, including printouts of spreadsheets where appropriate.

On the Wednesdays 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 an exam for the course on Saturday, May 2, from 2 – 5 pm.

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 submit the appropriate electronic forms or 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**

**THE DUKE COMMUNITY STANDARD**

Duke University is a community dedicated to scholarship, leadership, and service and to the principles of honesty, fairness, respect, and accountability. Citizens of this community commit to reflect upon and uphold these principles in all academic and nonacademic endeavors, and to protect and promote a culture of integrity. The Duke Community Standard was developed and codified by students, and serves as the campus honor code for actions in and out of the classroom.

*To uphold the Duke Community Standard:*

- I will not lie, cheat, or steal in my academic endeavors;
- I will conduct myself honorably in all my endeavors; and
- I will act if the Standard is compromised.


**NOTES ON INTEGRITY WITHIN THIS COURSE**

*Collaboration on Problem Sets is permitted and encouraged in this course.* Nonetheless, students are required to hand in their own copies of completed problem sets.

*Quizzes, Exams, and Papers:* students should work independently on these exercises.

*When in doubt, ask:* If you are ever confused about what collaboration or outside resources are permitted on any assignment or exercise, ask the instructor for clarification.
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 and Basic Capital Budgeting

A. Financial Management and Financial Performance
   Reading Assignment: Brealey, Chapter 1; Brealey, Chapter 29

B. Net Present Value and Discounting
   Reading Assignment: Brealey, Chapters 2-4;

C. Valuing Common Stocks
   Reading Assignment: Brealey, Chapter 5;

D. Making Decisions Using NPV Rules
   Reading Assignment: Brealey, Chapter 6

E. Modeling the Risk-Return Tradeoff
   Reading Assignment: Brealey, Chapters 8-9

F. Finding Discount Rates for Risky Projects and Debt
   Reading Assignment: Brealey, Chapter 10

G. Valuing Risky Investment Projects
   Reading Assignment: Brealey, Chapter 7 & Chapter 26

PART TWO: Capital Structure and Capital Budgeting

A. Debt Financing and MM
   Reading Assignment: Brealey, Chapters 18-19

B. Valuation in Light of MM: Adjusted Present Value
   Reading Assignment: Brealey, Chapter 20
PART THREE: Payout Policy

Reading Assignment: Brealey, Chapter 17

PART FOUR: The Market for Corporate Control

Reading Assignment: Brealey, Chapters 32-33

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 11, 21-23