

Economics 36: Theory of Finance

Fall 2003

CLASS MEETINGS 202 Moore Hall

Section 1: Mon Wed Fri 8:45 am - 9:50 am, Th (x) 9:00 am - 9:50 am

Section 2: Mon Wed Fri 10:00 am - 11:05 am, Th (x) 12:00 pm - 12:50 pm

Section 3: Mon Wed Fri 11:15 am - 12:20 am, Tu (x) 12:00 pm - 12:50 pm

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|-----------|---------------------------------|--------------|----------------------------------|
| Professor | Katerina Simons | Office | 307 Silsby |
| Phone: | 603-643-4096 | Office Hours | Mon. 1:30-4 or by appointment |
| E-mail | katerina.v.simons@dartmouth.edu | | |

REQUIRED TEXT:

Brealey, R. and S. Myers. *Principles of Corporate Finance*. 7th ed. (New York: McGraw Hill, Inc., 2003). [Chapters marked as **B** in course calendar]

Study Guide to Accompany Brealey and Myers.

B. Malkiel. *A Random Walk Down Wall Street* (Revised ed.) Norton, 1999 (marked **M** in course calendar).

RECOMMENDED READINGS

Marked as R with a number in course calendar. All available from the course website.

R 1: Market Chief Stands Firm in Storm over Pay, The New York Times, September 14, 2003

R 1: C Corporation, LLC, or Sole Proprietorship? What Form Is Best for Your Business?
Gary M. Fleischman and Jeffrey J. Bryant, Management Accounting Quarterly, Spring 2000

R 2: Should U.S. Investors Invest Overseas? Katerina Simons, Regional Review, Quarter 1, 2000.

R. 3 The Arbitrage Pricing Theory William Goetzmann, on line textbook

R 4: The Arithmetic of Active Management, William Sharpe, The Financial Analysts Journal, January/February 1991.

R5. The Buyback Catch, CFO Magazine, March 2001

R 6: Getting Real, S. L. Mintz, CFO, November 1999

R 7: The Credit-Raters: How They Work and How They Might Work Better, *Business Week*, April 8, 2002

Course Syllabus (cont.)

Martha The Oracle Daniel Gross in Slate.com, June 5, 2003

DESCRIPTION:

This course covers the three major decision making areas in finance: the investment, financing and asset management decisions. It will help you understand how funds are raised and allocated in the financial markets. Beginning with portfolio theory and the tradeoff between risk and return, it shows how the definition of investor risk depends crucially upon diversification. Topics to be discussed include capital budgeting, market efficiency, option pricing, as well as modern asset pricing models and how they are used to determine the expected rate of return on investments.

PREREQUISITES:

Econ 10, 21, 26

EXAMINATIONS:

There will be two midterms and a final. The tests will be closed-book, closed-note and timed. One 1-page cribsheet, both sides, with formulas, etc. is allowed for each exam. A calculator is essential. If you have a scheduling conflict and need to take the tests at another time, you must inform me within the first two weeks of class.

Midterm 1 – **Wednesday, October 22** – 25% of grade

Midterm 2 – **Wednesday, November 12** – 25% of grade

Final – **December 8** at 11:30 - 50% of grade

COURSE WEB PAGE

<http://blackboard.dartmouth.edu/> and <http://www.dartmouth.edu/~econ36ks>

The course web page will be used to post assignments, solutions, readings, lecture notes and course schedule updates. There is also a feedback form. Please note: the lecture notes are password protected. Both the userid and the password to get into lecture notes are: econ36ks econ36ks

HOMEWORK ASSIGNMENTS:

There will be 6 problem sets posted on the course web site. These problem sets will not be collected, but it is vitally important that you work the problems if you wish to comprehend the material and gain a good working knowledge of finance.

ALSO REQUIRED

A calculator – bring it to class everyday. Either a scientific $\{1/x, e^x, \ln(\), y^x\}$ or a financial calculator will do. You will also need the calculator for homework problem sets and exams.

EQUAL ACCESS

Course Syllabus (cont.)

I encourage students with disabilities, including chronic illnesses, learning disabilities and psychiatric illnesses, to discuss with me after class or during my office hours appropriate accommodations that might be helpful to them. Such discussions must precede any exams on which special accommodations are needed.

Class Calendar

| Monday 9/22 | Tuesday 9/23 | Wednesday 9/24 | Thursday 9/25 | Friday 9/26 |
|---|---------------|--|----------------|--|
| | | <i>First day of class</i> Introduction B 1; M 1-2, R 1 | | Background to Finance B 29, sec.1-2, B 2 |
| Monday 9/29 | Tuesday 9/30 | Wednesday 10/1 | Thursday 10/2 | Friday 10/3 |
| Present Value and the Cost of Capital B 2 | | How to Calculate NPV B 3 | | Stocks B 4; M 3-4 Problem set 1 |
| Monday 10/6 | Tuesday 10/7 | Wednesday 10/8 | Thursday 10/9 | Friday 10/10 |
| NPV and Other Rules B 5 | | Making Investment Decisions with NPV B 6 | | Introduction to Risk and Return B 7; M 8 Problem set 2 |
| Monday 10/13 | Tuesday 10/14 | Wednesday 10/15 | Thursday 10/16 | Friday 10/17 |
| Portfolio Theory B 8 | | Portfolio Theory-Cont. B 8; M 9-10; R 2; R 3 | | Capital Budgeting and Risk B 9 Problem set 3 |
| Monday 10/20 | Tuesday 10/21 | Wednesday 10/22 | Thursday 10/23 | Friday 10/24 |
| Market Efficiency B 13; M 5-8; R 4 Review | | First Exam | | Corporate Financing B 14-15 |
| Monday 10/27 | Tuesday 10/28 | Wednesday 10/29 | Thursday 10/30 | Friday 10/31 |

Course Syllabus (cont.)

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|---|----------------------|---|-----------------------|--|
| Dividend Policy B 16; R 5 | | Debt and Capital Structure B 17 | | Halloween Debt and Capital Structure – Cont. B 18 |
| Monday 11/3 | Tuesday 11/4 | Wednesday 11/5 | Thursday 11/6 | Friday 11/7 |
| Introduction to options B 20 | | Valuing Options B 21 | | Real Options B 22; R 6 |
| Monday 11/10 | Tuesday 11/11 | Wednesday 11/12 | Thursday 11/13 | Friday 11/14 |
| Warrants and Convertibles B 23 <i>Review</i> Problem set 4 | | Second Exam | | Bonds B 24-25; R 7 |
| Monday 11/17 | Tuesday 11/18 | Wednesday 11/19 | Thursday 11/20 | Friday 11/21 |
| Risk Management B 27 Problem set 5 | | Risk Management – Cont. B 27; M 11 | | International Risk Management B 28 |
| Monday 11/24 | Tuesday 11/25 | Wednesday 11/26 | Thursday 11/27 | Friday 11/28 |
| Mergers B 33 Problem set 6 | | No Class | Thanksgiving | No Class |
| Monday 12/1 | Tuesday 12/2 | Wednesday 12/3 | Thursday 12/4 | Friday 12/5 |
| Corporate Governance and Control B 34 Movie: Barbarians at the Gate | | Last day of class Conclusion and Review B 35 | | |