

**BROCK UNIVERSITY
FACULTY OF BUSINESS
FNCE 2P91 Fall 2002
Corporate Finance I**

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Text

Ross, S., R. Westerfield, B. Jordan, G. Roberts, **Fundamentals of Corporate Finance, 4th Canadian edition**, McGraw-Hill Ryerson Ltd., 2001.

Course Objectives

The objective of Finance 2P91 is to introduce students to the basic concepts, instruments and techniques used for financial decision making. Combined with Finance 3P93, this will provide the student with an overview of the discipline. Students will have a firm grasp of the objective of the firm, namely to maximize shareholder wealth. An investigation of appropriate discounted cash flow techniques will aid in typical problem solving faced by the financial manager. Basic asset valuation techniques for bonds, preferred stock and common equity will be covered, as well as detailed coverage of return and risk measures as it applies to investment choice and diversification.

Evaluation	
2 In-Class Quizzes (10% each)	20%
Midterm Examination Day: Saturday, October 26, 2002 Time: 9:00 – 11:00 AM	30%
Final Examination (Comprehensive)	50%

IMPORTANT NOTE

If a quiz or midterm exam is not completed, the mark assigned to the missed component will be zero except in the case of a valid excuse (illness, death of a close family member, etc.). In the case of a valid excuse the marks associated with the missed component will be re-assigned to the final exam.

FNCE 2P91 - Winter 2002 - Tentative Course Outline	
Topic	Reading
Introduction to Corporate Finance	Chapter 1
Introduction to Valuation: The Time Value of Money	Chapter 5
Discounted Cash Flow Valuation	Chapter 6
Interest Rates and Bond Valuation	Chapter 7
Stock Valuation	Chapter 8
Net Present Value and Other Investment Criteria	Chapter 9
Taxes and Capital Cost Allowance	Chapter 2
Making Capital Investment Decisions	Chapter 10
Project Analysis and Evaluation	Chapter 11
Some Lessons from Capital Market History	Chapter 12
Return, Risk, and the Security Market Line	Chapter 13
Cost of Capital	Chapter 14

FNCE 2P91: GUIDE TO TEXTBOOK READINGS AND PROBLEMS

The following is a guide to the sections of the textbook that relate to the topics covered in class. Some of the problems from the back of the chapters will be taken up in class. However, it is advised that students attempt as many problems in the text as possible. A complete understanding of the concepts is the responsibility of the student, and the more problems attempted, the better the likelihood of full comprehension.

TOPIC COVERAGE	TEXTBOOK READING
Introduction to Corporate Finance	
Corporate Finance and the Financial Manager	1.1
Forms of Business Organization	1.2
The Goal of Financial Management	1.3
The Agency Problem and Control of the Corporation	1.4
Financial Markets and the Corporation	1.5
Financial Institutions	1.6
Trends in Financial Markets and Financial Management	1.7
Outline of the Text	1.8
Summary and Conclusions	1.9
Introduction to Valuation: Time Value, DCF	
Future Value	5.1
Present Value	5.2 – 5.3
Summary and Conclusions	5.4
Multiple Cash Flows	6.1
Annuities and Perpetuities	6.2
Effective Annual Rates, Mortgages	6.3
Loan Types and Loan Amortization	6.4
Summary and Conclusions	6.5
Interest Rates and Bond Valuation	
Bonds and Bond Valuation	7.1
Bond Features and Ratings	7.2 – 7.3
Bond Types	7.4
Bond Markets	7.5
Inflation and Interest Rates	7.6
Determinants of Bond Yields	7.7
Summary and Conclusions	7.8
Stock Valuation	
Common Stock Valuation	8.1
Common Stock Features	8.2
Preferred Stock Features	8.3
Stock Market Reporting	8.4
Summary and Conclusions	8.5

Net Present Value and Other Investment Criteria	
NPV, Payback, AAR, IRR, PI	9.1 – 9.7
Taxes and Capital Cost Allowance	
Taxes	2.4
Capital Cost Allowance	2.5
Making Capital Investment Decisions	
Project Cash Flows	10.1
Incremental Cash Flows	10.2
Pro Forma Financial Statements	10.3
More on Project Cash Flow	10.4
Definitions of Operating Cash Flow	10.5
Tax Shield Approach	10.6
Summary and Conclusions	10.8
Project Analysis and Evaluation	
Evaluating NPV Estimates	11.1
Scenario and Other What-If Analyses	11.2
Capital Market History	
Returns	12.1 – 12.4
Capital Market Efficiency	12.5
Summary and Conclusions	12.6
Return, Risk and the Security Market Line	
Expected Returns and Variances	13.1
Portfolios	13.2
Announcements, Surprises and Expected Returns	13.3
Risk: Systematic and Unsystematic	13.4
Diversification and Portfolio Risk	13.5
Systematic Risk and Beta	13.6
The Security Market Line	13.7 – 13.8
Arbitrage Pricing Theory	13.9
Summary and Conclusions	13.10
Cost of Capital	
Cost of Capital	14.1
Cost of Equity	14.2
Cost of Debt and Preferred Stock	14.3
WACC	14.4
Divisional and Project Costs of Capital	14.5
Flotation Costs	14.6
WACC for Bombardier	14.7
Summary and Conclusions	14.8