Theory of Corporate Finance  
CRN 11128 - ECON 454  
Ke Xu  
University of Victoria

Monday and Thursday: 1:00-2:20 CLE C110  
Office hours: 2:30-3:20 on Wednesdays at BEC 382 or by appointment, email me at kexu@uvic.ca  
Course material will be posted on CourseSpaces

Course Description: Corporate finance is the study of how firms select projects and how they attract capital to finance their operations. This course will give you a general understanding of the time value of money, valuation of projects, net present value and cost of capital. We will explore why financial valuation differ from accounting valuation. The end of the course covers capital structure choice and dividend policy.

Course Objectives: A student who learns successfully in this course will have the capability to: (a) explain the key concepts of corporate finance, (b) to use valuation methods, (c) understand the difference between financial and accounting valuation, (d) explain the Modigliani and Miller theorem and understand its assumptions, (e) recognize the main factors affecting a firm’s capital structure and its dividend policy.

Prerequisites: ECON 305, 313 and COM 240 or MATH 242. You should be able to handle algebra and arithmetic, to deal with formulas and equations, and have a basic Excel or advanced calculator knowledge.

Evaluation: Your final grade will be determined as follows:

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<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tr>
<td>Two Midterms (Oct 10 and Nov 14)</td>
<td>30%</td>
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<tr>
<td>Attendance</td>
<td>5%</td>
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<td>Reading notes</td>
<td>20%</td>
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<td>Excel journal</td>
<td>15%</td>
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<tr>
<td>Final exam (Cumulative, date TBA by UVic record services)</td>
<td>30%</td>
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The University's undergraduate grading scale with numerical score/letter grade equivalency, and descriptions can be found at the following: University Grading Schedule

Exams: The exams are closed book and closed notes. You may bring a calculator, but not a computer.

Quizzes: I will post quizzes at the end of each week. Quiz questions are designed to prepare you for the exams. This will also help to maintain your interest in the class and to support those of you who need a nudge to study regularly. Note that quiz grade doesn’t count towards your final grade for the course.

Reading notes: There will be multiple discussions sessions about: (a) cases, (b) readings, (c) public contributions on Coursespace. For some of these discussions, I will ask you to write reading notes (RN). I expect to post 7 RN, you are required to return 5RN (I will grade 4RN) and to attend 5 RN
discussions. The questions in the RN help you understand the material and encourage you to contribute to a stimulating classroom discussion. Your RN should be written in full sentences and be grammatically correct. Plagiarism is not acceptable. Be sure to quote and cite material where appropriate. We will also have discussion sessions without RN. For these, I will ask you short questions about the reading at the beginning of the class.

Excel journal: I will ask you to prepare 5 Excel exercises which will be the basis for class discussions. You should post 2 on Coursespace prior to class and you will post your own write-up journal covering all 5 once we have covered all 5. You are expected to attend at least 3 of the 5 Excel sessions. Your grade will be based on your posts, attendance and final journal.

Textbooks and reading material
We will use two books: a free online textbook ‘Corporate Finance’ by Ivo Welch:

Corporate Finance by Ivo Welch [http://book.ivo-welch.info/read/](http://book.ivo-welch.info/read/) (download “General” version). You can order a print copy from an online printer. I have used Lulu


Expectations: The material is at times technical and students are expected to be able to solve problems independently. I assume that students have a good understanding of the material covered in the prerequisites and familiarity with basic terminology and concepts used in finance. I also expect that you will be able to pick up basic accounting and statistics notions. You are required to check CourseSpace before every class. The site is regularly updated with new material. You are responsible to have read posted announcements. Read the relevant book chapter before class. You will not understand everything, but you should understand a good part.

The suggested out-of-course workload is targeted for an average of 4 hours per week, sometimes more, sometimes less. You are not permitted to use a computer or other internet connected device during class. Print the classnotes and weekly questions and bring them to class (as well as a calculator). Please abide by this policy without me having to remind you.

The midterm questions are basically the same format and level of difficulty as the questions in the book (in chapters), the quizzing site, and the material covered during class discussions. No answer will be given to the end of chapter questions but I will answer queries during office hours. If you have no problems answering similar questions under time pressure, you will also have no problem in the exams. I will aim to have 80 percent of the questions very similar to the assigned work (in class exercises, reading notes and quizzes). The remaining 20 percent will test more advanced understanding of book chapters that is not covered in the assigned work.
Useful books and readings:
Misbehaving. 2015. Richard Thaler (Section VI)
The Little Book of Valuation. 2011. A. Damodaran
The economics of structured finance. Coval, Jurek and Stafford (JEP, 2009)

Course Experience Survey (CES)
I value your feedback on this course. Towards the end of term you will have the opportunity to complete a confidential course experience survey (CES) regarding your learning experience. The survey is vital to providing feedback to me regarding the course and my teaching, as well as to help the department improve the overall program for students in the future. When it is time for you to complete the survey, you will receive an email inviting you to do so. If you do not receive an email invitation, you can go directly to http://ces.uvic.ca. You will need to use your U Vic NetLink ID to access the survey, which can be done on your laptop, tablet or mobile device. I will remind you nearer the time, but please be thinking about this important activity, especially the following three questions, during the course. (1) What strengths did your instructor demonstrate that helped you learn in this course? (2) Please provide specific suggestions as to how the instructor could have helped you learn more effectively. (3) Please provide specific suggestions as to how this course could be improved.

Policies
This course adheres to the Undergraduate Course Policies of the Department of Economics that deal with the following issues:
Academic integrity (plagiarism and cheating)
Attendance
Grading
Academic concessions
Travel plans
Students with a disability
Policy on inclusivity and diversity

Examinations
Attendance at all scheduled examinations is mandatory. Consideration for missed examinations will be given only on the basis of documented illness, accident or family affliction, and for no other reasons. In the event of a missed final examination, students are advised to follow the procedures outlined in the University Calendar: University Examination Policies. Students are advised not to make work or travel plans until after the examination timetable has been finalized. Students who wish to finalize their travel plans at an earlier date should book flights that depart after the end of the examination period. There will be no special accommodation if travel plans conflict with the examination.

Classroom Etiquette
Behave politely and professionally. Do not disturb or distract your fellow students or the instructor.

**Academic Integrity**
Please browse [What is Plagiarism](#) for the definition of plagiarism.

**Language**
English is the language of instruction at the University and for all aspects of this course. Dictionaries are not allowed in examinations.

**E-mail**
You may contact me at my U Vic email address. Please include both your legal name (the name in the university records) and course title in the subject of your email.