

Finance II (441)

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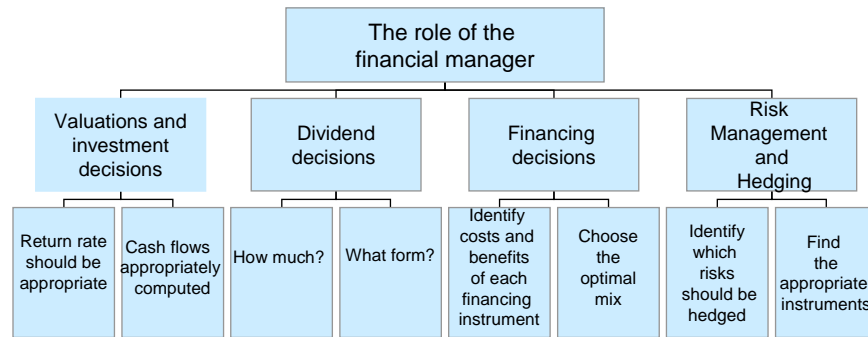
Looking for a Student Liaison

The objective of having Student Liaisons is to facilitate greater two-way communication between the faculty and students

- Professors will ask for a voluntary Student Liaison at the beginning of the first class of the term
- Responsibilities include:
 - Be a sounding board for the faculty member on student related issues
 - Communicating any scheduling conflicts regarding assignments, classes, or exams to professors
 - Organizing dates for lunches with professors and students
 - Collecting TCE's and turning them in to Student Affairs during the last class
 - Responsibilities will be very similar to Academic Rep responsibilities in 1st quarter core classes
- Time commitment for the student should be no more than an aggregate of 2-3 hours of the term



What is corporate finance?



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Introduction to the course

- ❖ Who am I?- Who are you?
- ❖ First stop. The course web page:

<http://www.kellogg.northwestern.edu/faculty/sapienza/ftp/d41/index.htm>

- News
- [Calendar](#)
- [Course Syllabus](#)
- [Supplementary Material](#) used in class (slides, spreadsheet, etc).
- [Supplementary Readings](#). Contains links to articles related to the lectures.
- [Homeworks](#)
- [Case Assignments](#)
- [Exams](#). Exam policies and past exams
- [Supplementary Problems](#) (contains additional practice problems)

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❖ **Course structure**

- **Class Meetings: Lectures & discussions**
 - Be prepared (read lecture outlines before class)
 - Questions go both ways
- **Required Readings**
 - Text: Brealey and Myers, 8th edition.
 - Academic Articles (in the package)
- **Absorbing the material**
 - Review your class notes and read the textbook
 - Do the homework assignments (work in groups!)
 - Do the additional problems at the end of each lecture outline
 - Do additional problems on the web
 - Office hours & appointments/e-mail
- **Evaluating your progress**
 - 1 graded homework assignments
 - 2 cases
 - 2 cases (only quiz)
 - Midterm (optional) (in class, closed notes & books)
 - Final (in class, closed notes & books)
 - Final grade distribution

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❖ **Course Philosophy**

- **Theory versus Facts**
 - Concentrate on underlying principles.
- **Using models to identify general principles**
 - Applications in Fin Decision
- **A quantitative course**
- **Who should take this class?**

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❖ Expectations

➤ **What is expected of you?**

- Preparation for class (we will move quickly)
- Class Participation (face cards and name cards)
 - Interactive class
 - Expect cold calls
- Making up for missed work
- Classroom etiquette
- No Laptops are allowed, except in few cases where I will warn you in advance.
- Strict application of the Honor Code
- Mastery of Prerequisites: Financial accounting, (Accounting 430), Managerial Economics 430, Statistics (Decision Sciences 434 or equivalent), Finance I (Finance 430), Proficiency in basic algebra will be assumed.
- Due dates for homework/cases, exams are non-negotiable

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❖ Expectations

➤ **What can you expect of me?**

- Lecture outlines (a preview of the lecture, do not substitute for you taking notes)
- Questions in class
- Questions outside class
 - E-mail Paola-Sapienza@northwestern.edu (do not forget to include 441 in the subject)
 - Phone 847-491-7436/ Fax 847-491-5719
- Review sessions

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❖ Tips to succeed in this class

- Read the lecture outlines before coming to class
- Review your notes after class
- **Practice, practice, practice**
 - Problems at the end of each lecture outlines
 - Do the non-graded problem sets (they come from past exam questions)
 - Additional problems on my web page
- Read the assigned readings
- Do the graded cases and homework.

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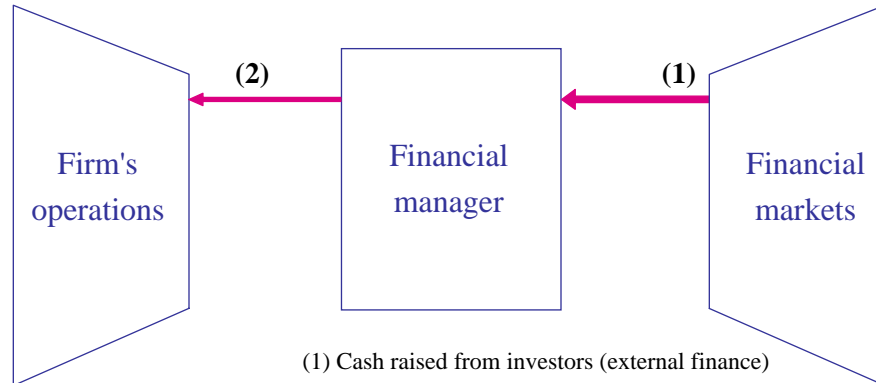
❖ Grading

Assignment	Total Points
Face Sheets (only first day of class)	10
Homework assignment 2	25
AP and FPL	10 each
Homework assignments 1, 3, 4, 5	0
UST case and GM case	30 each
Midterm	120
Final	240
Total	475

Total score = Face card + Homework 2 + 2 quick quiz on cases + 2 cases + max(midterm+final, 3/2 final)

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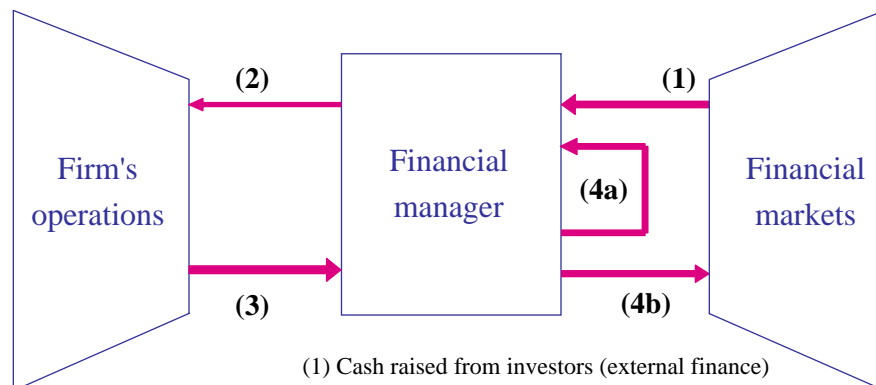
Role of The Financial Manager



- (1) Cash raised from investors (external finance)
- (2) Cash invested in firm

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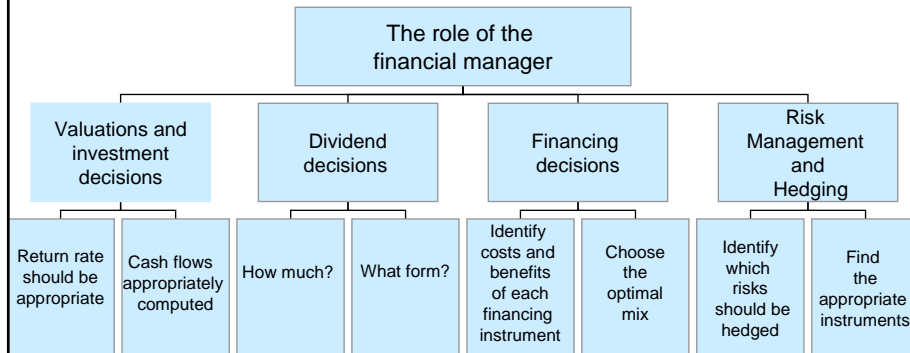
Role of The Financial Manager



- (1) Cash raised from investors (external finance)
- (2) Cash invested in firm
- (3) Cash generated by operations
- (4a) Cash reinvested (internal finance)
- (4b) Cash returned to investors

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❖ What is the objective of the financial manager in performing her/his tasks?



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❖ Financial market efficiency

- Definition
In an efficient markets securities are priced as the discounted value of expected future cash flows
- Implications
Trading securities is a zero NPV investment

Abnormal returns are unpredictable (actual returns are predictable subtracting the risk premium)

Trust market prices: they are the best indicators of firm's value

Arbitrage opportunities do not exist

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❖ Why Markets may be Inefficient?

- Transaction Costs
- Reported Prices versus Tradable Prices
- Imperfect Competition
- Government Regulations

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❖ Why should financial managers care if markets are efficient?

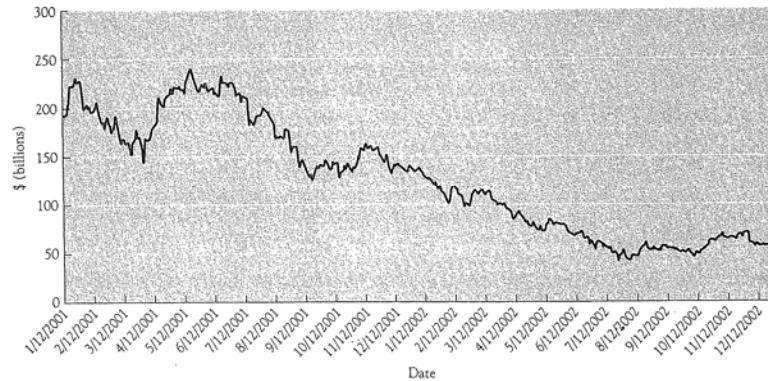
- Can rely on market prices in guiding decisions (e.g. cost of capital and capital budgeting decisions).
- Firms can always raise capital for positive NPV investments.
- Financing decisions can be treated independently from investment decisions.

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What are the consequences of Inefficient Markets on Corporate Decisions?

AOL Time Warner, Market Capitalization, Jan. 2001–Dec. 2002

Source: Center for Research in Security Prices.



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❖ Takeaway

- Decisions made by the Financial Manager
- Objectives of the Financial Manager
- Market Efficiency:
 - What it means
 - What it does not mean
 - Why we care

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