

# Waiver Requirements-Finance I (FINC 430)

Finance I (FINC 430) is available for partial waiver only by exam.

The **Finance** waiver exam is a two-part exam process used both to place students into the most appropriate Finance course and as a self-diagnostic tool for students. All students who wish to receive a partial waiver for Finance I (FINC 430) must receive a passing grade (75%) on both parts of the Finance waiver exam. The exam works as follows:

**ACF Qualifying Exam** is a two-hour exam administered on-line. The exam is open book, note, and internet. Although students may use outside resources, they should not expect to have time to use these resources during the exam. Students should review material prior to starting the qualifying exam. Students may take the exam whenever they wish but the exam must be completed in one sitting. Students who do not pass the ACF Qualifying exam must enroll in and complete FINC 430 (Finance I). Students who pass the ACF qualifying exam may enroll in FINC 430 or FINC 440 (Accelerated Corporate Finance) and may sit for the two-hour in person Finance waiver exam. Students may take the online ACF exam at any time; the online exam self-registration link is provided in eNews several weeks prior to waiver exam dates. Students may also email Kellogg EWMBA Academic Advising: [kellogg-ewadvisor@kellogg.northwestern.edu](mailto:kellogg-ewadvisor@kellogg.northwestern.edu) to receive the self-registration link.

**In-person Finance waiver exam** is a two-hour, written exam. ***Only those students who pass the ACF Qualifying exam may sit for the in-person exam.*** Students who pass the in-person finance waiver exam must take a finance elective (or take FINC 430 or FINC 440). Students who do not pass must take either Finance I or Accelerated Corporate Finance (FINC 440). Registration for this exam occurs through the regularly scheduled quarterly waiver process.

## ACF Qualifying Exam

Among students who have learned this material from prior work experience, from taking an undergraduate finance class, or from self-study, the pass rate has been high. However, among students who did not review the material prior to beginning the exam, the pass rate has been low.

1. Understand and know how to calculate present values. This includes both calculating the present value of a set of cash flows when the discount rate is given and calculating loan payments when the loan amount, maturity, and loan rate are given.
2. Understand and know how to calculate the expected return and risk (variance or standard deviation) of the return on a portfolio given details of the portfolios components (e.g., how much is invested in different assets).
3. Calculate returns on an investment (e.g., a bond) given prices and cash flows (e.g., interest payments).
4. Understand the basic components of a balance sheet and be able to classify accounts as assets or liabilities and current or long term.
5. Understand the interaction between the income statement and the balance sheet.

## In-Person Finance Waiver Exam

Finance I (FINC-430) is a graduate-level finance class. Historically, students who have not studied finance at the graduate level have rarely passed the Finance I waiver exam. Prior work experience and studying finance at the undergraduate level are typically insufficient preparation for passing the waiver exam for this graduate-level class.

## Exam Topics

1. Capital Asset Pricing Model (CAPM) - statistical as well and the intuitive basis of CAPM; difference between systematic risk (beta) and idiosyncratic risk and why it is relevant for calculating discount rates and for performance evaluation.
2. Betas - how asset, debt, and equity betas and returns are related and how to lever and unlever betas.
3. Bond Pricing - price bonds given cash flows and discount rates, relationship between the coupon rate on a bond, the yield on a bond (the promise rate on a bond), and the expected return on the bond.
4. Discounted Cash Flow - value a project, assets, debt and equity using discounted cash flow.
5. Forecasting Cash Flows - calculate cash flow from assets (CFA) (to value a project), to debt (CFD) and to equity (CFE/levered cash flow); intuition of how cash flow from assets (unlevered cash flow) is forecasted for the purpose of valuation.
6. Terminal Values – what it is, how it is estimated, and how it is incorporated in a valuation.
7. Multiples - how firms are valued using a multiples approach; how different valuation ratios are related and what assumptions one must make to justify the use of different valuation ratios; how multiples are used to calculate the terminal value in a going-concern firm valuation.
8. Financial Options – the definition and mechanics of call and put options; draw the payoff diagram for an option or portfolio of options; construct a portfolio of options given a payoff diagram of the portfolio. You will NOT be asked how to price options.