Kellogg School of Management
Northwestern University

Principles of Finance	**Professor Anthony DeFusco**
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Fall 2016	847.467.5453

SYLLABUS

COURSE DESCRIPTION

Principles of Finance is an intensive one-quarter course that provides an introduction to the major topics in the field of finance with an emphasis on valuation and corporate finance principles. The topics covered will include the impact of time and uncertainty on value, discounted cash flows, equity and debt valuation, the term structure of interest rates, portfolio theory, asset pricing, and options. The course will also explore the financing decisions of firms, including capital budgeting, capital structure, and payout policy.

TEXTBOOK AND SUPPLEMENTARY MATERIALS

- **Recommended Text:** Jonathan Berk and Peter DeMarzo, *Corporate Finance*, Prentice Hall, Fourth Edition. The textbook readings and problems are highly recommended, but optional. Some students will find the lecture notes sufficient to learn the required material; however, many other students find the textbook to be very helpful. You are free to purchase a different edition, but you will be responsible for figuring out which readings and problems correspond to those listed on the syllabus and in the lecture notes.

- **Case Packet:** All of the assignments for this course will be based on case studies that must be purchased through study.net.

- **Canvas:** All lecture notes, supplementary readings, old exams, and any other miscellaneous material will be posted on the course Canvas page. You are responsible for printing copies of these materials if you need them for class.

- **Excel Tutorials:** You will use Excel extensively on your case assignments as well as possibly on the midterm and final (in the past, I have often written exams that must be submitted in Excel). I do not teach Excel in this class, so you are responsible for learning it outside of the classroom if you are not familiar with it. For most lectures, Excel files will be provided on Canvas to assist you with understanding how to solve the problems covered in class. The TA sessions will also include solving problems using Excel. If you need further assistance with Excel, I recommend taking the online tutorial offered at Lynda.com titled "Excel 2010: Financial Functions in Depth." You should be able to access this tutorial for free through the NU site license.

GRADING POLICY

Your total score for the course will be a weighted average of your performance on:

Case Assignments	20%
Midterm Exam	30%
Final Exam	45%
Class Participation	5%

Your final course grade will be curved and depend on your relative performance in the class. Final grades will be given in accordance with Finance Department and CPU policy.

Group Case Assignments:

There are 8 case assignments. The case assignments are group assignments. Your group will be randomly assigned to you at the end of week two of the term. There will be four to five students per group. Tentative due dates for the case assignments are listed below. These dates are subject to change, though I will be sure to give ample notice in the event that they do. All students face the same set of deadlines and no late assignments will be accepted. Case assignments will be due at the beginning of class on the assigned date. Any assignments submitted after that time will receive no credit. You must upload your case answers via the link to the case assignment on Canvas. Do not submit more than one set of answers per group. Unless otherwise specified, you should upload your case answers as an Excel file.

In general, I will not answer any questions about a case before it is turned in. If you are unclear about something, make an assumption, state this assumption clearly in your answer, and move forward with your solution. As long as your assumption is reasonable, then your approach will be acceptable. Remember, these are real world cases, so there is not one correct answer (though there are many wrong answers). We will often spend some time discussing these cases in detail in class. All students should come prepared to discuss these cases on the day the assignments are due.

At the end of the quarter, group members will have the opportunity to evaluate each other. You may recommend a group member (or members) for a grade reduction from your group's overall homework grade. I will take the average grade reduction for a group member (across all group members) and then apply this to the case assignment portion of their grade. You may not recommend that all of your group members receive a grade reduction. To submit a peer evaluation, at the end of the quarter, simply email me the names of everyone in your group for whom you want to submit a reduction and what percentage you think should be deducted from their homework grade. Only submit a peer evaluation if you want to downgrade a member's overall score.

Midterm Exam:

The midterm will be held in our regular classroom and during the normal class time. The tentative date is on **Thursday, October 20**. The midterm will cover the first half of the course. I recommend preparing for the exams by working through the practice exams posted on Canvas as well as the practice problems from the textbook suggested in the lecture notes. It will also be helpful to review the case assignments.

Final Exam:

The final exam will be held in our regular classroom on **Thursday, December 8** from **12:00-2:00pm** and will cover the entire course. This date is final and will not change.

Class Participation:

You are expected to be prepared for class and to constructively participate in class discussion and in working through the case assignments with your group. In general, I do not expect class participation to be an issue for anyone's grade. The default score for the class participation portion of your final grade is 100% and it is very difficult to not receive this default grade. However, if I field a question to the class and there are no volunteers, I may from time-to-time randomly cold call one member of the class. If you are not in class when I call your name, or provide a lackluster response, it may affect your participation grade. (Note: "wrong" does not mean lackluster. I will only judge your response as lackluster if you do not make any attempt to engage with the question being asked.)

Regrade Requests:

If you feel that your homework assignments or exams have been graded incorrectly, you may submit an official regrade request. I adhere to the Kellogg regrade policy. All requests must be made in writing within 10 working days after the exam or assignment has been graded and returned. They should consist of a short explanation of why you think the grading is incorrect. Upon submission of a regrade request, I will review your *entire* assignment/exam. Your final grade will be based on this complete review. Therefore, your grade can either be raised or lowered as a result of a regrade request.

Academic Integrity:

Students in the Kellogg School of Management Certificate Program for Undergraduates must adhere to Northwestern University's standards of academic integrity as described on the University's website and in its printed materials. They are also subject to the Academic Integrity Standards and Guidelines of the CPU program itself.

I have a strict zero tolerance policy regarding cheating that applies to all aspects of this course, including class assignments and exams. Solutions to previous years' problems cannot be used in solving case assignments. Any student caught cheating on any aspect of the course will receive a failing grade for the entire course.

CLASSROOM ETIQUETTE AND MISCELLANEOUS OTHER POLICIES

Please follow the Kellogg code of classroom etiquette, which can be found at
http://www.kellogg.northwestern.edu/stu_aff/policies/etiquette.htm.

Laptops: It is generally very distracting and hinders class discussion when laptops are open during class. Therefore, please keep your laptops closed during class unless we are reviewing a case or working with an Excel file as part of the lecture.

Phones: Please turn your phones off or place the ringer on silent mode while in the classroom. Also, please refrain from checking your e-mail or text messaging during class.

Seating Chart: On the first lecture of the second week of class, I will pass around an empty seating chart for you write your names in. Please continue to sit in the same seat for the remainder of the quarter. I prefer to call you by name rather than just point at you, and this is a great way for me to learn your names.

Name Plates: Please bring your name plate to class and have it displayed throughout the quarter. This will also help me to learn your names quickly.

Class Material: The class notes, homework assignments, answers, and past exams are the intellectual property of the instructor. You may not distribute class notes electronically or in any form to anyone outside of the class or outside of Kellogg. You may not duplicate these notes for use by your employers after graduating from Kellogg without my written consent.

Review Sessions and TA: There are two TAs who will be helping out with the course: Eileen Driscoll (e-driscoll@kellogg.northwestern.edu) and Yufeng Liu (yufeng.liu@kellogg.northwestern.edu). Both are available by e-mail to answer questions; however, any and all grading questions should be directed to me first. I will consult with Eileen and Yufeng as needed. Eileen will hold regular optional review sessions on **Fridays** from **4:00-5:20pm** in **555 Clark B03**. These review sessions will be dedicated to covering practice problems from the textbook and past exams.

OFFICE HOURS AND AVAILABILITY

Office Hours: In my experience, fixed office hours do not work for most students. I am, however, always available by appointment. Please email me to set up a time to meet. When requesting a meeting please try to do so at least 24 hours in advance and give me some guidance on when you are available.

Email Policy: I will always try to respond to your e-mails within 48 hours; however, I cannot guarantee that I will get to them sooner than that. Please take this into account and plan accordingly.

APPROXIMATE COURSE OUTLINE

Below is an approximate schedule for the class. All dates other than the final exam are tentative and I may add or drop some material as we go along. Lecture notes will typically be made available on Canvas the day before the first lecture of the week. Suggested readings for each week from the Berk and DeMarzo (BD) textbook are also listed below. The most up-to-date schedule will always be available on Canvas.

Week	Date	Topic	Suggested Readings	Assignment Due
1	T., Sept. 20	Course introduction, Module 1: Present Value	BD Chs. 1, 4.1-4.8, 5.1-5.3	
	Th., Sept. 22	Module 1: Present Value		
2	T., Sept. 27	Module 2: Stock/Bond Valuation	BD Chs. 5.3, 6.1-6.3, 9.1-9.2	
	Th., Sept. 29	Module 2: Stock/Bond Valuation		
3	T., Oct. 4	Accounting review, Module 3: Capital Budgeting	BD Chs. 2, 3.1-3.3, 7.1-7.2, 7.4	
	Th., Oct. 6	Module 3: Capital Budgeting		
4	T., Oct. 11	Module 4: Pro forma Valuation	BD Ch. 19	Ocean Carriers
	Th., Oct. 13	Module 5: Multiples Valuation	BD Chs. 9.4, 19.1	
5	T., Oct. 18	Teuer A&B Case Discussion		Teuer A, Teuer B
	Th., Oct. 20	MIDTERM EXAM		
6	T., Oct. 25	Module 6: Risk, Return, and the CAPM	BD Chs. 10, 12.1-12.3	
	Th., Oct. 27	Module 6: Risk, Return, and the CAPM		
7	T., Nov. 1	Module 7: Capital Budgeting with Risk	BD Chs. 8, 12.4-12.7 14.3	Schumpeter
	Th., Nov. 3	Module 8A/B: Capital Structure in Perfect Markets & with Taxes	BD Ch. 14, 15	
8	T., Nov. 8	Module 8B/C: Capital Structure with Taxes & Other Factors	BD Ch. 15, 16	Ameritrade
	Th., Nov. 10	Module 8C/D: Capital Structure with Other Factors & Valuation	BD Ch. 16, 18	
9	T., Nov. 15	Module 9: Payout Policy	BD Ch. 17	UST
	Th., Nov. 17	Module 9: Payout Policy		
10	T., Nov. 22	Module 10: An Introduction to Options	BD Chs. 20.1-20.2, 20.6, 22.1-22.2	Sampa
	Th., Nov. 24	NO CLASS: THANKSGIVING		
11	T., Nov. 29	Module 10: An Introduction to Options		FPL
	Th., Dec. 1	FINAL EXAM REVIEW		
12	Th., Dec. 8	FINAL EXAM		