

FINANCE 601, Introduction to Finance
Course Outline, Fall 2024

COURSE OBJECTIVE

As an introduction to modern finance at the graduate level, this course considers various fundamental financial concepts, as well as the corresponding analytical underpinnings and practical applications, in order to prepare students for advanced and specialized courses that the Master of Finance (MFIN) program offers.

INSTRUCTOR AND CONTACT INFORMATION

Instructors: Yingnan Zhao, Assistant Professor of Finance; email: zhaoy502@mcmaster.ca .
Clarence C.Y. Kwan, Professor of Finance; email: kwanc@mcmaster.ca .

Teaching Assistant: Ruohan Jin, Finance Ph.D. Candidate; email: jinr18@mcmaster.ca .

Office Hours: TBA (to be announced in class when confirmed).

Important Notice: For email communications with the instructors or the teaching assistant, please always use McMaster’s regular email system, which is outside the Avenue-to-Learn (A2L) platform. Please note that the instructors and the teaching assistant do not monitor A2L regularly for incoming emails. For a timely response, it is important to use McMaster email accounts (***@mcmaster.ca), with **FINANCE 601** (and nothing else) being the subject heading.

COURSE ELEMENTS

Credit Value: 3	Leadership: No	IT Skills: Yes	Global View: Yes
A2L: Yes	Ethics: Yes	Numeracy: Yes	Written Skills: Yes
Participation: Yes	Innovation: Yes	Group Work: Yes	Oral Skills: Yes
Evidence-Based: Yes	Experiential: No	Final Exam: Yes	Guest Speaker: No

COURSE DESCRIPTION

This course covers a broad range of topics in modern finance, with an emphasis on conceptual issues, analytical underpinnings, and practical applications. After some preliminary materials, this course considers time value concepts and applies them directly to practical loan problems, including mortgages, and to valuation from investors' perspectives, including bond and stock valuation. This course also considers fundamental concepts of portfolio investments, risk-return trade-offs, capital market theory, and market efficiency issues. The topic of options, including essential properties of call and put options on stocks and option pricing models, is considered as well.

Turning to corporate finance, this course considers corporate investment decisions, including capital budgeting and decisions to purchase or to lease assets in the Canadian tax environment, and long-term sources of funds for financing investments. Pertaining to long-term financing, the major topics include the cost of capital, capital structure, dividend policy, and share repurchase decisions. The final topic of this course is merger and corporate structuring.

ACHIEVING THE COURSE OBJECTIVE; LEARNING OUTCOMES

As many financial topics are analytical, students are expected to be already familiar with essential mathematical tools, such as finite and infinite series, matrix algebra, differential and integral calculus, and basic methods of mathematical proofs. Further, students are expected to be familiar with fundamental statistical concepts such as random variables, discrete and continuous probability distributions, sampling, and estimation, as well as estimation errors.

To achieve the course objective requires a considerable amount of out-of-class work by each student. In addition to keeping up with the required reading as the Fall Term progresses, students are expected to do the provided exercises independently, instead of merely reading the posted solutions. Examination questions at the graduate level, including those in FINANCE 601, are seldom replications of the same exercises with different numerical values. Independent efforts for such tasks will enhance students' problem-solving skills as needed in practice afterwards.

LECTURE NOTES, SUPPLEMENTARY PEDAGOGIC NOTES, AND OTHER REFERENCE MATERIALS

The primary reading materials of this course are in the following set of lecture notes by one of the instructors:

Clarence C.Y. Kwan, FINANCE 601, Introduction to Finance: *Lecture Notes*, Fall 2024 (hereafter, Lecture Notes).

As the Lecture Notes are not intended for public dissemination, registered students in the Fall 2024 class of FINANCE 601 will have **password access** to the individual chapters of the 2024 version of the Lecture Notes. They will be distributed, in advance, via the FINANCE 601 site on A2L. The password will be announced in class.

Also distributed are the class presentation slides, which cover the key, but abbreviated, materials in the corresponding chapters of the Lecture Notes. Further, there will be some supplementary notes by the instructors for distribution to students, also via the FINANCE 601 site on A2L. Such notes are primarily intended to facilitate and strengthen students' understanding of some specific topics in the Lecture Notes or to explore additional issues within the scope of this course.

No specific textbooks are assigned for this course. Students can supplement the course materials when needed, by consulting standard textbooks in Canadian settings. A suitable textbook for such a purpose is the following:

Jonathan Berk, Peter DeMarzo, and David Stangeland, *Corporate Finance, Fifth Canadian Edition*, 2022, Pearson Canada.

Students are encouraged to use reliable online resources, such as Wikipedia and Investopedia when encountering any unfamiliar terms in the course materials. For example, the use of relevant keywords in a Google search can lead to appropriate websites. However, as not all online resources are reliable, judgment is needed to assess the credibility of each posting.

EVALUATION AND GRADING SCALE

Performance in FINANCE 601 is primarily based on the following four components:

1. The valuation project (20%).
2. The Python assignment (10%).
3. The midterm examination (30%).
4. The cumulative final examination (40%).

The valuation project is coordinated with the other four courses (600, 602, 604, and 605) in the MFIN program. Details about the project contents and deadlines for the deliverables will be announced at the beginning of the Fall Term.

Detailed Information about the Python assignment will be provided by the end of Week 3. The due date of the assignment is December 6, which is the last day of class.

The common midterm examination for both Sections C01 and C02, which is a closed-book examination, will take place on November 4, likely during the usual class time for Section C01. It will cover the course materials for Weeks 4-7; specifically, the materials are from Lecture Notes, Chapters 1-6 and the part of Chapter 7 (Options, Part 1) that is covered in Week 7. Details about the examination's duration, start time, and location will be provided as soon as room booking is confirmed.

The cumulative final examination, which is also a closed-book examination, covers all materials from Week 1 onwards. The examination will be scheduled by the MFIN program office.

At the end of the course, each student's overall percentage grade will be converted to a letter grade in accordance with the following conversion scheme:

LETTER GRADE	PERCENT	POINTS
A+	90-100	12
A	85-89	11
A-	80-84	10
B+	75-79	9
B	70-74	8
B-	60-69	7
F	00-59	0

For percentage grades marginally below a breakpoint (which is 90%, 85%, 80%, 75%, 70%, or 60%), the conversion may be adjusted at the discretion of the instructors.

IMPORTANT NOTICE

1. For enquiries about the valuation project, the Python assignment, or the final examination, please contact Professor Zhao directly.
2. For enquiries about the midterm examination, please contact Professor Kwan directly.
3. For enquiries about the School's policy on missed work, accommodation, and issues requiring administrative approvals, please contact the MFIN program office instead.
4. Students are expected to adhere strictly to the standards of academic ethics of the University.
5. If a part of the midterm examination paper contains multiple-choice questions, the part containing

such questions will not be released to students after grading. Neither will the entire final examination paper.

6. Although all course materials are made available to students, regular attendance of the weekly classes remains highly important. Active participation in the learning process is valuable for students. In fact, several major improvements to the course materials in previous years originated from class discussions of the issues involved.
7. Relevant information is announced in class.
8. Students can earn bonus marks for independently identifying typographical errors or other errors in any of the course materials throughout the Fall Term. A simple way to do so is to record such errors on paper or in an electronic device, when going through the course materials, and to provide the instructors with a list, from time to time. If an error is truly consequential, then please alert the instructors immediately, so that they can take appropriate actions to rectify the situation without delays.
9. Students can also earn bonus marks for actively participating in class discussions. Thus, it is useful to bring a name card to class. This will allow the instructors to connect the names on the class list to the individual students in attendance.
10. It is the responsibility of each student to confine the use of electronic devices in class only for the course materials and course-related activities pertaining to FINANCE 601.
11. The use of a McMaster standard calculator is allowed during examinations in this course.

THE COURSE OUTLINE

The chapters as indicated below correspond to those in the Lecture Notes.

1. Chapter 1: Introduction

Milestones of modern finance; the objective of the firm; financial management's functions; major types of firms; financial institutions, markets, and their functions; a brief description of the sources of funds for a firm.

2. Chapter 2: The Time Value of Money and Related Topics

Simple interest and compound interest; present value and future value; interest rate conversion; continuously compounded interest rates; annuities; mortgage loan repayments; periodic deposits; reverse mortgages; growing annuities; the term structure of interest rates; interest parity.

Y. Feng and C.C.Y. Kwan, "Interest Rate Conversion," *Spreadsheets in Education*, 8, no. 1, (2015), Article 3.

3. **Chapter 3: Bond Valuation**

General features of a bond; interest-rate risk and default risk; a basic model for bond valuation; premium and discount; a more realistic model for bond valuation; accrued interests; day-counting methods for computing accrued interests in practice; odd coupon periods; the demise of negative yield bonds; Macaulay's duration and modified duration as measures of bond-price sensitivities in response to interest-rate movements; impacts on duration by underlying parameters; a saw-toothed time pattern of duration and a corrective measure.

Y. Feng and C.C.Y. Kwan, "Time-Value Concepts, Bond Valuation, and Corresponding Spreadsheet Functions," *Spreadsheets in Education*, 5, no. 1, (2011), Article 4.

Y. Feng and C.C.Y. Kwan, "Bond Duration: A Pedagogic Illustration," *Spreadsheets in Education*, 5, no. 3, (2012), Article 1.

4. **Chapter 4: Stock Valuation**

General features of preferred stock and common stock; Gordon's constant growth stock valuation model; practical implications; impact of dividend growth on stock price; estimation of growth; quarterly dividends with annual growth; finite-growth stock valuation model and extensions.

5. **Chapter 5: Mean-Variance Portfolio Theory**

Normal distributions and indifference curves; a mean-variance paradox; measurement of security returns; ex-dividend and record dates; logarithmic transformation of returns and implications; portfolio's risk-returns trade-off; variance, covariance, and correlation of returns; 1/N investment strategy; implications of frictionless short sales; short selling of stocks in practice; a basic portfolio selection model; the presence of a risk-free security; idle cash; the tangency portfolio approach for portfolio selection; input parameters for portfolio selection models; revisions of input parameter; a non-technical description of the Markowitz critical line method for portfolio selection; various practical issues.

6. **Chapter 6: Asset Pricing Models and Market Efficiency**

The Sharpe-Lintner capital asset pricing model (CAPM); the capital market line; the security market line; the beta coefficient; diversifiable and non-diversifiable risk; the Ross arbitrage pricing theory (APT); an illustration of the construction of arbitrage portfolios; the Fama-French three factor

model; discussions of weak form, semi-strong form, and strong form market efficiency; the random walk hypothesis; conceptual arguments for market efficiency; event-study methodologies; market anomalies.

C.C.Y. Kwan, "The Arbitrage Pricing Model: A Pedagogic Derivation and a Spreadsheet-Based Illustration," *Spreadsheets in Education*, 9, no. 1, (2016), Article 4.

7. Chapter 7: Options

Basic terminology; basic properties of call and put option prices; arbitrage profits from violations of such properties; put-call parity; the Black-Scholes option pricing model; the underlying intuition of the original model derivation; the Cox-Ross-Rubinstein binomial option pricing model; discussions of the convergence of the binomial version to the original Black-Scholes version; a practical application of options: volatility indices.

Y. Feng and C.C.Y. Kwan, "Connecting Binomial and Black-Scholes Option Pricing Models: A Spreadsheet-Based Illustration," *Spreadsheets in Education*, 5, no. 3, (2012), Article 2.

8. Chapter 8: Capital Budgeting

Basic cash flow calculations; methods of project evaluation: payback period, discounted cash flows; potential conflicts between results based on the internal rate of return and the net present value; mutually exclusive projects with unequal life cycles; tax considerations in capital budgeting; tax shields from declining-balance capital cost allowances; loss of tax shield from disposing an asset; incremental analysis; a temporary change in the Canadian tax policy that affects capital cost allowances; capital budgeting under risk; certainty equivalents of risky cash flows; the expected-utility concepts; some essentials of leasing; reasons for leasing; hidden costs of leasing; lease valuation.

9. Chapter 9: Long-Term Sources of Funds and the Cost of Capital

Terminology pertaining to long-term debt; risk and return to investors of long-term debt; maturity and repayment provisions; retractable bonds, extendible bonds, and call provisions; advantages and disadvantages of debt financing; bond refunding decisions; some essentials of preferred stock; early redemption of preferred stock; advantages and disadvantages of preferred stock financing; some essential features of common stock; rights of common shareholders; advantages and disadvantages of common stock financing; cumulative voting versus majority voting by common shareholders; the connection between the cost of debt and bondholders' required return; a convenient approximation of the cost of debt; the connection between the cost of preferred (common) stock and preferred (common) stockholders' required return; the weighted average cost of capital;

10. Chapter 10: Capital Structure

Business risk and financial risk; the degree of operating leverage; the degree of financial leverage; the degree of combined leverage; the impact of financial leverage on earnings per share; the Modigliani-Miller (MM) theory of capital structure; the MM assumptions; justifications of the MM results without any tax and with corporate tax; arbitrage proofs of the MM results; impacts of leverage on the cost of equity; investment decisions in the MM framework; risk-free and risky corporate debt; the MM theory and the CAPM; financial leverage and the beta coefficient; risk sharing between bondholders and shareholders; limited liabilities of shareholders; the pecking order theory and the trade-off theory of capital structure; the principal-agent problem; bankruptcy costs; various practical issues.

11. Chapter 11: Dividend Policy and Share Repurchase Decisions

Historical controversies of dividend relevance and dividend irrelevance; the residual theory of dividend; consideration of sources and uses of funds; the case for dividend irrelevance with analytical underpinnings; the case for dividend relevance, also with analytical underpinnings; some practical issues; a reconciliation: costly external financing and the information content of dividend; share repurchase: its intended purpose and its signal to investors.

12. Chapter 12: Merger and Corporate Restructuring

Basic terminology; practical reasons for merger; defensive tactics against takeover attempts; economic gains and costs of merger; acquisition by cash; impacts of information about the merger offer on the costs of the acquiring firm; acquisition by share exchange; the dilution of ownership; ex-post evaluation of merger; different types of corporate structuring; discounted cash flow analysis of merger and corporate restructuring.

Other Useful General Information for Students (The materials below are duplicated from the 2024 template of the School's MFIN course outlines except for the final section, which contains the course schedule.)

COMMUNICATION AND FEEDBACK

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Students who have concerns about the course content, evaluation methods, or delivery should first reach out to the course instructor. If your concern remains unresolved after speaking with the instructor, you may then reach out to the relevant Area Chair for further consideration.

ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

Students are responsible for being aware of and demonstrating behaviour that is honest and ethical in their academic work. Such behaviour includes:

- following the expectations articulated by instructors for referencing sources of information and for group work;
- asking for clarification of expectations as necessary;
- identifying testing situations that may allow copying;
- preventing their work from being used by others (e.g., protecting access to computer files); and
- adhering to the principles of academic integrity when conducting and reporting research.

AUTHENTICITY/PLAGIARISM DETECTION

Some courses may use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

COURSES WITH AN ONLINE ELEMENT

All courses use some online elements (e.g. e-mail, Avenue to Learn (A2L), LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course.

Students may be required to use the Respondus LockDown Browser and Respondus Monitor. The Respondus LockDown Browser is a downloadable program that allows a student to take an Avenue to Learn quiz in a secure environment. Quizzes can be set to use LockDown Browser or LockDown Browser.

For more details about McMaster's use of Respondus Lockdown Browser please go to <https://avenuehelp.mcmaster.ca/exec/respondus-lockdown-browser-and-respondus-monitor/>

The available information is dependent on the technology used. Continuation in a course that uses online elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

ONLINE PROCTORING

Some courses may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx, Teams, or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

ATTENDANCE

Arriving late or missing class disrupts the learning experience for both you and your peers. Punctuality and attendance are crucial to maintaining a respectful, professional and productive environment for everyone, including our faculty.

Instructors may use Top Hat in their course in a variety of ways, including to capture attendance in their classes. Attendance is recorded by submitting a unique 4-digit code displayed in your physical classroom using your personal device.

MISSED ACADEMIC WORK

Missed Examinations / Tests / Class Participation

Students can apply for relief from missed term work if they have or are going to miss an evaluated portion of their course. Please contact the Program Administrator for more information.

Reasons for missing course work can include:

- Health-related or extenuating circumstances

- Work-related commitments (for part-time students only)
- Representing the University at an academic or varsity event
- Religious obligations
- Conflicts between two (or more) overlapping scheduled mid-term exams.

Requesting Relief for Missed Term Work

When students miss regularly scheduled term work which contributes 10% or less to the final grade, the activity necessary to compensate for the missed work will be determined by the course instructor. The compensatory activities assigned will vary with the nature of the course and the missed requirement. They include, but are not restricted to, an alternative assignment, a rescheduled midterm exam, or re-weighting the marks for the missed component to other mark components. For missed work which exceeds 10% of the course grade, [Petition For Relief For MFin Missed Term Work](#) and [McMaster University Student Health Certificate](#) or other supporting documentation must be submitted to the Program Administrator at mfin@mcmaster.ca within five (5) business days of missing the work or mid-term exam.

Missed Final Examinations

Students must be available for the duration of the posted exam period regardless of their personal exam schedule. This is to ensure student availability throughout the entire exam period in the event that an exam must be rescheduled due to unforeseen circumstances (university closure, power outage, storm policy, etc.). A student who misses a final examination without valid reason will receive a mark of 0 on the examination.

Students who have missed a final exam for a valid reason can apply to the Program Office to write a deferred examination by submitting an [Application for Deferring a Final Exam](#) and [McMaster University Student Health Certificate](#) or other supporting documentation. The application must be made within five days of the scheduled exam.

Deferred examination privileges, if granted, are normally satisfied during the examination period at the end of the following semester. In select cases, the deferred examination may be written at a time facilitated by the Program Office and agreed to by the course instructor.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

ACADEMIC ACCOMMODATION FOR STUDENTS WITH DISABILITIES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the [RISO](#) policy. Students should submit their request to the Program Office ***normally within 10 working days*** of the beginning of term in which they anticipate a need for accommodation. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

POTENTIAL MODIFICATION TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

RESEARCH USING HUMAN SUBJECTS

ONLY IF APPLICABLE

Research involving human participants is premised on a fundamental moral commitment to advancing human welfare, knowledge, and understanding. As a research intensive institution, McMaster University shares this commitment in its promotion of responsible research. The fundamental imperative of research involving human participation is respect for human dignity and well-being. To this end, the University endorses the ethical principles cited in the Tri-Council Policy Statement: Ethical Conduct for Research Involving Humans:

<http://www.pre.ethics.gc.ca>

McMaster University has mandated its Research Ethics Boards to ensure that all research investigations involving human participants are in compliance with the Tri-Council Policy Statement. The University is committed, through its Research Ethics Boards, to assisting the research community in identifying and addressing ethical issues inherent in research, recognizing that all members of the University share a commitment to maintaining the highest possible standards in research involving humans.

If you are conducting original research, it is vital that you behave in an ethical manner. For example, everyone you speak to must be made aware of your reasons for eliciting their responses and consent to providing information. Furthermore, you must ensure everyone understands that participation is entirely voluntary. Please refer to the following website for more information about McMaster University's research ethics guidelines:

<http://reo.mcmaster.ca/>

Organizations that you are working with are likely to prefer that some information be treated as confidential. Ensure that you clarify the status of all information that you receive from your client. You **MUST** respect this request and cannot present this information in class or communicate it in any form,

nor can you discuss it outside your group. Furthermore, you must continue to respect this confidentiality even after the course is over.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of FINANCE 601 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

ARTIFICIAL INTELLIGENCE

Students may use generative AI for their work throughout the course so long as the use of generative AI is referenced and cited. Use of generative AI outside the stated use without citation will constitute academic dishonesty. It is the student's responsibility to be clear on the limitations for use and to be clear on the expectations for citation and reference and to do so appropriately.

COURSE SCHEDULE

FINANCE 601 – Introduction to Finance

Fall 2024 Course Schedule

(Subject to Changes)

Remarks: To equip students with the required finance tools from FINANCE 601 for the valuation project in a timely manner, some key materials in Chapters 2, 3, 4, 6, and 9 of the Lecture Notes are covered during the first three weeks of class. More in-depth coverage of the corresponding course materials will start in Week 4.

Week 1 (September 9 and 13) – Professor Zhao

Introduction to Valuation and its Approaches. Key concepts related to the time value of money, and models in bond valuation and stock valuation.

- (a) The Time Value of Money: simple interest, compound interest, present value, net present value (NPV), internal rate of return (IRR), annuities, and perpetuities.
- (b) Bond Valuation: yield to maturity (YTM) and its properties, and a basic model for bond valuation.
- (c) Stock Valuation: the dividend discount models (DDM), the Gordon constant growth model, and the estimation of dividend growth.

Selected topics from Lecture Notes, Chapters 2, 3, and 4; details to be announced in class.

Week 2 (September 16 and 20) – Professor Zhao

Asset Pricing Models. Diversifiable and non-diversifiable risk, the Sharpe-Lintner capital asset pricing model (CAPM), the security market line, the beta coefficient, and the Fama-French three-factor model.

Selected topics from Lecture Notes, Chapter 6; details to be announced in class.

Week 3 (September 23 and 27) – Professor Zhao

The Cost of Capital. The connection between the cost of debt and bondholders' required return, a convenient approximation of the cost of debt, the connection between the cost of preferred (common) stock and preferred (common) stockholders' required return, and the weighted average cost of capital.

Selected topics from Lecture Notes, Chapter 9; details to be announced in class.

Week 4 (September 30, National Day for Truth and Reconciliation)

No classes.

Week 4 (October 4) – Professor Kwan

Introduction; the Time Value of Money and Related Topics; Bond Valuation.

Lecture for students in both Section C01 and Section C02.

Lecture Notes, Chapters 1, 2, and 3.
Regular class time and location for Section C02.

Week 5 (October 7 and 11) – Professor Kwan

Stock Valuation; Mean-Variance Portfolio Theory (Part 1).

Lecture Notes, Chapters 4 and 5.

Week 6 (October 14, Thanksgiving)

No Classes.

Week 6 (October 18) – Professor Kwan

Mean-Variance Portfolio Theory (Part 2); Asset Pricing Models and Market Efficiency (Part 1).

Lecture for students in both Section C01 and Section C02.
Lecture Notes, Chapters 5 and 6.
Regular class time and location for Section C02.

Week 7 (October 21 and 25) – Professor Kwan

Asset Pricing Models and Market Efficiency (Part 2); Options (Part 1).

Lecture Notes, Chapters 6 and 7.

Week 8 (October 28 and November 1) – Professor Kwan

Options (Part 2)

Lecture Notes, Chapter 7.

Week 9 (November 4)

Midterm Examination (Closed-Book)

Coverage: Course materials in Weeks 4-7.
Location, duration, and start time: TBA.
TA office hours in prior weeks: TBA.

Week 9 (November 8) – Professor Kwan

Capital Budgeting

Lecture for students in both Section C01 and Section C02.
Lecture Notes, Chapter 8.
Regular class time and location for Section C02.

Week 10 (November 11) – Ruohan Jin, TA

Review of the Midterm Exam Paper

Review for students in both Section C01 and Section C02.
Regular class time and location for Section C01.

Weeks 10 and 11 (November 15 for Section C02; November 18 for Section C01) – Professor Zhao

Capital Structure

Lecture Notes, Chapter 10.

Weeks 11 and 12 (November 22 for Section C02; November 25 for Section C01) – Professor Zhao

Dividend Policy and Share Repurchase Decisions

Lecture Notes, Chapters 11.

Weeks 12 and 13 (November 29 for Section C02; December 2 for Section C01) – Professor Zhao

Merger and Corporate Restructuring

Lecture Notes, Chapters 12.

Weeks 13 (December 6) – Ruohan Jin, TA

Course Review and Office Hours

Review for students in both Section C01 and Section C02.
Regular class time and location for Section C02.

Week 14: Cumulative Final Examination (Closed-Book)

Common Examination for students in both Section C01 and Section C02.
Location, duration, and start time: TBA.
Additional TA office hours in prior weeks: TBA.