

## **ECN 366 - INVESTMENT ANALYSIS II (CORPORATE FINANCE)**

### **I. COURSE INFORMATION**

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Instructor:	Luca V.A. Colombo
Instructor's Email	lcolombo@fus.edu
Office Hours:	We. 14:00 – 16:00; 18:45 – 20:45; and by appointment
Class location	Kaletsch Campus Bldg., Classroom 5
Class meeting times	We. 16:00-18:45

### **II. COURSE DESCRIPTION**

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This course focuses on the financing decisions of firms. After an introduction to the questions related to the definition of debt policy and the capital structure of the firm, the course investigates the problems related to the issue of securities and dividend policy, as well as the impact of corporate taxes and the costs associated with bankruptcy, financial distress and conflicts of interest. In the second part, the course studies the fundamentals of option pricing theory and the valuation of options, with several applications to warrants and convertible bonds, and provides an introduction to the use of derivatives for hedging financial risk.

### **III. RATIONALE**

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This course is designed to endow the students with a set of tools that allows for a systematic analysis of a variety of financial issues.

### **IV. COURSE GOALS**

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Issues of corporate finance related to the financial and capital structure of firms, both in the theoretical framework of efficient capital markets and in the more realistic one in which market imperfections play a relevant role, are carefully investigated. Complementing the material studied in BUS-ECN 365, the course covers then the analysis of more advanced financial instruments, allowing for a systematic understanding of the main characteristics and of the evaluation techniques of the major derivative assets, such as options, futures, swaps, warrants and convertibles.

### **V. SPECIFIC LEARNING OUTCOMES**

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Upon completion of this course, students will be able to: understand the characteristics and implications of alternative capital and financial structures of firms, as well as of alternative dividend policies; design and evaluate a variety of derivatives, such as call and put options (and combinations of the two), warrants, futures, swaps and convertible bonds; use derivatives to set up hedging policies.

## **VI. REQUIRED TEXTS AND MATERIALS**

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R.A. BREALEY, S.C. MYERS, and F. ALLEN, Principles of Corporate Finance, McGraw Hill, Last Edition.

The instructor's class notes will also be an essential reference for the entire course.

## **VII. ASSESSMENT OVERVIEW**

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The final grade will be based on class participation and on a student's performance in a portfolio game, three graded problem sets (additional problem sets will be assigned every week, but not formally graded), a midterm exam, and a final exam.

## **VIII. ASSESSMENT DETAILS**

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The final exam will include all the material covered in the course. Instructions about homeworks and the portfolio game will be given in due time. The weights of each of the above components in the computation of the final grade is the following:

Class participation, portfolio game and homeworks	30%
Midterm exam	30%
Final examination	40%

## **IX. GRADING POLICIES AND EXPECTATIONS**

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At the end of the semester, a student's total points will be translated into the final grade as determined by the following grading scale: 90-100=A; 80-89=B; 70-79=C; 60-69=D; 0-59=F (plus/minus when applicable).

## **X. HOW TO DO WELL IN THIS COURSE (POLICIES / REQUIREMENTS)**

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Attendance is essential to perform well in the course. Absences may lower the course grade. Announcements that are made during lectures will carry the full force of assignments and instructions contained in this syllabus. New material introduced in lectures will be covered in subsequent exams. Students are responsible for any missed information. Extended absences may result in the student being dropped from the class roll.

Absences from exams and delays in handing in homeworks will only be excused if due to student's illness or family emergency. In the case a student can anticipate that she (he) will miss an exam, she (he) is required to make every effort to notify the instructor in advance of the exam to be missed by phone, email, or with a message to reception. In case of a severe emergency that precludes advance notice, this contact must be made as soon as possible after the absence. A condition of illness or serious family emergency forcing a student to miss an exam needs to be formally certified. No exceptions will be made. Make-up examinations will normally be given during the final exam week.

## **XI. ACADEMIC INTEGRITY: STATEMENT ON CHEATING AND PLAGIARISM**

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A student whose actions are deemed by the University to be out of sympathy with the ideals, objectives or the spirit of good conduct as fostered by the University and Swiss community, may be placed on Disciplinary Probation or become subject to dismissal from the University. Cheating is a dishonest action out of sympathy with

the ideals, objectives and spirit of the University. Furthermore, cheating reflects negatively on one's personal integrity and is unjust to those students who have studied.

See the Academic Catalog for full statement (page 215):

[https://www.fus.edu/images/pdf/FUS\\_ACADEMIC\\_CATALOG\\_2016\\_2018\\_web.pdf](https://www.fus.edu/images/pdf/FUS_ACADEMIC_CATALOG_2016_2018_web.pdf)

## **XII. RESOURCES AVAILABLE**

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*Writing and Learning Center:* For all writing and learning support issues (time management, study skills, preparing for exams, reading and presentation skills, and all steps of the writing process from brainstorming a paper to outlining, editing to proofreading) schedule an appointment with a tutor by going to the website [wlc.setmore.com](http://wlc.setmore.com). Drop-in assistance 10am-5pm (Fridays only 10am-3pm). Tutors can give you individual one-one-one support in all of these areas. For further inquiries, contact Ann Gardiner, WLC Director ([agardiner@fus.edu](mailto:agardiner@fus.edu)) or Olivia Della Croce, WLC Assistant Director ([odellacroce@fus.edu](mailto:odellacroce@fus.edu)).

*Honors Society:* This offers an added opportunity for students seeking to pursue their academic interests. The program is especially suitable for students contemplating graduate study after Franklin. Contact Professor Marcus Pyka ([mpyka@fus.edu](mailto:mpyka@fus.edu)), LAC 12.

### **XIII. COURSE SCHEDULE**

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	SUBJECT	CHAPTER(*)
JAN. 23	Efficient financial markets	<b>13</b>
JAN. 30	An introductory survey of financing. Tools and concepts in Corporate Finance	<b>14 35</b>
FEB. 6	The issue of securities	<b>15</b>
FEB. 13	Dividend policy: fundamentals and controversial issues	<b>16</b>
FEB. 20	When is the capital structure relevant? The Modigliani-Miller Theorem	<b>17</b>
FEB. 20	FIRST HOMEWORK ASSIGNED (DUE ON FEB. 27)	-
FEB. 27	The impact of corporate taxes on financing decisions. The costs of bankruptcy, financial distress and conflicts of interest. The effects on financing of investment decisions	<b>18-19</b>
MAR. 6	MIDTERM EXAM	-
MAR. 27	The after tax weighted average cost of capital (WACC), adjusted discount rates and adjusted present value	<b>19</b>
APR. 3	Fundamentals of option pricing theory. The valuation of options	<b>20</b>
APR. 3	SECOND HOMEWORK ASSIGNED (DUE ON APR. 17)	-
APR. 17	Applications of option pricing theory: real options, warrants and convertible bonds	<b>21-22</b>
APR. 24	The valuation of debt. Term structure, yield to maturity, duration and volatility	<b>23-24</b>
APR. 24	THIRD HOMEWORK ASSIGNED (DUE ON MAY 1)	-
MAY 1	Mergers, corporate control, and governance	<b>33-34</b>
MAY 8	FINAL EXAM (16:00 – 18:00)	-

(\*) The references to chapters may vary for different editions of the reference textbook. The indications provided above refer to the sixth edition of the book.