GRA 6540 Applied Finance

Program
Master of Science in Business, Specialization Course

Responsible for the course
Dag Michalsen

Department
Financial Economics

Term
According to study plan

ECTS Credits
6

Applied Finance is a useful addition to undergraduate corporate finance courses for students with any major but finance. However, its primary function is to provide the necessary basis for further studies in finance. Thus, this course is a prerequisite for all students wanting a finance minor, or simply wanting to include in their graduate course portfolio any of the other finance specialilzation courses offered. Note that this course does not qualify as a prerequisite for advanced specialization courses in finance.

This course is **not** for students majoring in finance (or in the MSc Financial Economics program). Finance majors must take GRA 6533 Theory of Finance as a compulsory prerequisite for all other finance courses in order to be prepared for the advanced courses in finance.

Objective
This course strives to provide students who do not specialize or major in finance with the sound theoretical and practical foundations needed to fully benefit from and master the topics covered in finance specialization courses like Introduction to Derivatives and Risk Management, Multinational Financial Management, Applied Valuation and Investments.

Prerequisites
An undergraduate corporate finance course

Compulsory literature
Grinblatt, Mark, Sheridan Titman. 2002. *Financial Markets and Corporate Strategy* . 2nd ed. Boston, Mass.: McGraw-Hill/Irwin.

Recommended literature
Bodie, Zvi, Alex Kane and Alan J. Marcus. 2004. *Investments* . 5th ed. Boston: McGraw-Hill.

Course outline
I. FINANCIAL MARKETS AND FINANCIAL INTRUMENTS

1.   *Raising capital*   (GT chapter 1).
2.   *Debt financing* (GT chapter 2).
3.   *Equity financing* (GT chapter 3).

II. VALUING FINANCIAL ASSETS

4.   *Portfolio tools*   (GT, chapter 4).
5.   *Mean-variance analysis and the Capital Asset Pricing Model* (GT chapter 5 (and BKM chapter 9)).
6.   *Factor models and the Arbitrage Pricing Theory* (GT chapter 6 (and BKM chapter 11)).
7.   *Basics of the Consumption based asset pricing model* (The basics of the model will be taught in class. We will not go into the depth of the model and will stress the model's intuition).
8.   *Pricing derivatives (GT chapter 7).*
9.   *Options* (GT chapter 8).
10.   *Discounting and valuation* (GT chapter 9).

III. VALUING REAL ASSETS

11.   *Investing in risk-free projects* (GT chapter 10).

12.   *Investing in risky projects* (GT chapter 11)
13.   *Allocating capital and corporate strategy* (GT chapter 12).
14.   *Corporate taxes* (GT chapter 13).

IV. CAPITAL FINANCIAL STRUCTURE

15.   *How taxes affect financing choices* (GT chapter 14).
16.   *How taxes affect dividends and share repurchases* (GT chapter 15).
17.   *Bankruptcy costs and debt-holder equity-holder conflicts* (GT chapter 16).
18.   *Capital structure and corporate strategy* (GT chapter 17).

Computer-based tools
None, except Blackboard/homepage

Course structure
The instruction over 36 lecture hours consists primarily of lectures and discussions of the readings assigned to the topics listed above. Students are expected to have read the material before each class meeting.

Evaluation
The course grade will be based on the following activities and weights:
30%: Class work (in the form of a mix of some/all of the following: hand in of case write ups, projects, and homeworks; case presentations and class participation; in class midterm and quizzes).
70%: 3 hour written final exam.
Specific Information regarding any aspect of student evaluation will be provided in class. It is the student's responsibility to obtain this information. Please note that whilst attendance is not compulsory, it is the student's responsibility to obtain any information provided in class that is not included on the course homepage/Blackboard or text book. Homepages and/or Blackboard are not designed for the purpose of students who choose not to attend class.

Evaluation code(s)
GRA 65401

Aids at the examination
Programmable calculator. Bilingual dictionary

Makeup exam
Next time the course is offered