



APPLIES TO ACADEMIC YEAR 2005/2006

GRA 6540 Applied Finance

Program

Master of Science in Business, Master of Science in Management, 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 specialization 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

Books:

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

Recommended literature

Books:

Bodie, Zvi, Alex Kane and Alan J. Marcus.. 2005. Investments.. Boston: McGraw-Hill.

Course outline

I. FINANCIAL MARKETS AND FINANCIAL INSTRUMENTS

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. *Pricing derivatives* (GT chapter 7).
8. *Options* (GT chapter 8).
9. *Discounting and valuation* (GT chapter 9).

III. VALUING REAL ASSETS

10. *Investing in risk-free projects* (GT chapter 10).
11. *Investing in risky projects* (GT chapter 11)
12. *Allocating capital and corporate strategy* (GT chapter 12).
13. *Corporate taxes* (GT chapter 13).

IV. CAPITAL FINANCIAL STRUCTURE

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

Re-takes are only possible at the next time a course will be held. When course evaluation consists of class participation or process elements, the whole course must be re-evaluated when a student wants to retake an exam. Retake examinations entail an extra examination fee.