



APPLIES TO ACADEMIC YEAR 2006/2007

GRA 6540 Applied Finance

Program

Master of Science in Business and Economics, 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
Ross, Stephen A., Randolph W. Westerfield, and Jeffrey F. Jaffe. 2005. Corporate finance. 7th ed. Boston: McGraw-Hill/Irwin

Articles:

Assigned articles

Recommended literature

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 RWJ 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 and RWJ chapter 18).
16. *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.

Both parts of the evaluation need to be passed in order to get a grade in the course.

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 accounts for 100 % of the final grade in the course GRA6540.

Aids at the examination

Advanced 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.

Honor Code

Academic honesty and trust are important to all of us as individuals, and they are encouraged and promoted by the honor system. This is a most significant university tradition. The honor system is the responsibility of students. As faculty, we share the commitment to the ideals of the honor system.

At no time should notes or papers or personal consultations based on previous semesters of this course be used. As part of the honor code papers handed in as part of the course is, at the discretion of the professor, scanned for plagiarism. We are using Safe Assignment in Black Board for this purpose. Any violation of the honor code will be dealt with in accordance with BI's procedures on cheating. These issues are a serious matter to everyone associated with the program. They are at the heart of the Honor Code and academy integrity. If you have any questions about your responsibilities under the honor code, please ask.