

## ACT 349H1F (FALL 2022) CORPORATE FINANCE FOR ACTUARIAL SCIENCE

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### 1. Course Information:

**Instructor:** Jason Tome ([jason.tome@utoronto.ca](mailto:jason.tome@utoronto.ca))

**Office hours:** TBD (By Appointment)

**Lecture:** Wednesdays from 2:00 to 5:00 p.m.

**Delivery Method:** In-person lectures in UC 179

**Teaching Assistant:** Ian Weng (Sophia) ([ianweng.chan@mail.utoronto.ca](mailto:ianweng.chan@mail.utoronto.ca))

**Office hours:** TBD (By Appointment)

### 2. Course Description

*This course introduces students to analysis of financial planning and management with emphasis on capital structure, dividend payout policies, cost of capital, capital budgeting, risk and other special topics. The course serves as a framework for understanding a broad range of corporate financial decisions.*

This course is one of the mandatory courses under Canadian Institute of Actuaries (CIA)'s University Accreditation Program (UAP). UAP has moved away from the course-by-course accreditation method and towards program accreditation method (the "Pathway 1 of CIA qualification"). Under the new pathway, in order to obtain ACIA (Associate of CIA) professional credential, students need to:

1. Complete a degree from an actuarial program (ACT Specialist or Major) at University of Toronto and pass a list of mandatory courses. No minimum course grade or GPA is required as long as students pass all the mandatory courses. The full list of UofT's 16 mandatory courses are: ACT240, ACT245, ACT247, ACT348, ACT349, ACT370, ACT451, ACT452, ACT466, STA257, STA261, STA302, STA314, ECO101, ECO102, MGT201/RSM219.
2. For transition: CIA will accept an actuarial degree from UofT completed between June 30, 2015 and October 31, 2023 without all the specified mandatory courses.
3. Complete the ACIA Module (administered by CIA, projected Spring 2023).
4. For transition: a student can be exempt from the ACIA Module if they complete SOA exam PA and the 8 FAP Modules and assessments by December 31, 2023.
5. Complete an open-book ACIA Capstone Exam (administered by CIA, projected Fall 2023).
6. For transition: a student can be exempt from the capstone exam by completing any combination of UAP credits or exams for P, FM, IFM, LTAM, STAM and SRM by October 31, 2023. The deadline to apply for UAP credits is September 30, 2023.

Details on the new pathway for students can be found here: <https://education.cia-ica.ca/acia/acia-for-accredited-university-students/>

### 3. Course Objectives

Upon successful completion of this course, students will be able to:

- Explain financial markets and functions of corporate finance.
- Calculate and Interpret time value of money.
- Estimate bond prices and identify factors that affect bond prices.
- Estimate the value of a common stock and determine if it is under or overpriced.
- Calculate different components of cost of capital.
- Understand and evaluate capital budgeting decision rules and explain how real options affect these decisions.
- Classify and distinguish various types of risk and their relation to portfolio choice
- Describe and calculate a firm's capital structure.
- Interpret how leverage and firm value are related.
- Explain how a firm's dividend policy is set and how it affects firm value.
- Understand leasing decisions.

### 4. Course Textbook & Calculator

**Title:** Corporate Finance (2022)

**Edition:** 13<sup>th</sup> Edition

**Authors:** Stephen Ross and Randolph Westerfield and Jeffrey Jaffe and Bradford Jordan

**Calculator:** The use of a hand-held financial calculator that has Time Value of Money functions is **strongly recommended** for this course. I recommend the Texas Instruments BAII Plus, as this is used in the textbook and lectures to demonstrate examples. The use of any other non-programmable calculator will also be permitted for quizzes and exams.

### 5. Evaluation

#### a) Term Test #1 and Term Test #2 (25% each, for a combined total of 50%)

- a. **Questions:** Combination of Short Answer & Multiple Choice Questions.
- b. **Duration:** 2 hours will be allotted.
- c. **Date / Time / Location:** See "Course Schedule" section below.
- d. **Important:** See "Exam Rules & Academic Integrity" section below.

#### a) Final Exam (50%)

- a. **Questions:** Combination of Short Answer & Multiple Choice Questions.
- b. **Duration:** 2 hours will be allotted.
- c. **Date / Time / Location:** Will be announced once they are available.
- d. **Important:** See "Exam Rules & Academic Integrity" section below.

## 6. Exam Rules & Academic Integrity

- All exams (i.e. Test 1, Test 2, and Final Exam) are **closed book** examinations.
- Dictionaries are **not** allowed into the examinations.
- Formula sheets will be provided for each exam.
- Only **non-programmable calculators** will be allowed into the exams. If you are unsure, please ask the Instructor to check your calculator.
- Bring student identification (i.e. ID cards) to exams.
- Nothing is to be on/at one's desk during an exam except pencil, eraser, non-programmable calculator and the individual's student card.
- Do not wear caps / hats to the exams.
- Do not bring electronic devices to the exams.
- Students are required to complete **all components** of this course. There are no exceptions to this. Extra assignments to improve grades *will not* be allowed.
- Exams may be scored using a special program which examines the answer sheets for unusual coincidences in the pattern of answers given which may be indicative and used as supporting evidence of cheating.
- Grades will **not** be adjusted on the basis of need. It is important to monitor your performance in the course. Remember: **You** are responsible for **your** grades in this course.
- There are **no make-up term tests**. However, if you miss a term test, and you can provide me with one of the following: a U of T Verification of Illness or injury form ([www.illnessverification.utoronto.ca](http://www.illnessverification.utoronto.ca)), or an Accessibility Services letter, or a letter from your college registrar about personal matters interfering with your studies, **by the day after the term test at the latest**, your missed term test weight will be shifted to the final exam (i.e. if you missed a 20% term test, your final exam will be worth 60%). This "shifting" may be done after comparing and adjusting the class average of the missed test and final exam to ensure fairness to all students. You will be informed of that adjustment should it happen.
- There will be **ONE** make-up final exam arranged by Faculty of Arts and Science directly.
- In addition to the specific university's internal policies on conduct, including academic misconduct, candidates pursuing credits for writing professional examinations shall also be subject to the Code of Conduct and Ethics for Candidates in the CIA Education System and the associated Policy on Conduct and Ethics for Candidates in the CIA Education System. For more information, please visit information for candidates on [obtaining UAP credits](#).

## 7. Course Schedule

Date	Topic
2022-09-14	Lecture #1: Introduction to Corporate Finance (Chapter 1), Discounted Cash Flow Valuation (Chapter 4), Interest Rates & Bond Valuation (Chapter 8), and Stock Valuation (Chapter 9)
2022-09-21	Lecture #2: Financial Statements and Cash Flow (Chapter 2), Financial Statements Analysis and Financial Models (Chapter 3), and Net Present Value and Other Investment Rules (Chapter 5)
2022-09-28	Lecture #3: Making Capital Investment Decisions (Chapter 6), and Risk Analysis, Real Options, and Capital Budgeting (Chapter 7)
2022-10-5	<b>Term Test #1 (During Lecture)</b>
2022-10-12	Lecture #4: Lessons from Market History (Chapter 10), Return, Risk, & the Capital Asset Pricing Model (Chapter 11), and Efficient Capital Market and Behavioral Challenges (Chapter 14)
2022-10-19	Lecture #5: Risk, Cost of Capital, and Valuation (Chapter 14) and Capital Structure: Basic Concepts (Chapter 16)
2022-10-26	Lecture #6: Capital Structure: Limits to the Use of Debt (Chapter 17)
2022-11-2	Lecture #7: Valuation and Capital Budgeting for the Levered Firm (Chapter 18)
2022-11-9	<b>READING WEEK – NO LECTURE</b>
2022-11-16	<b>Term Test #2 (During Lecture)</b>
2022-11-23	Lecture #8: Dividends and Other Payouts (Chapter 19)
2022-11-30	Lecture #9: Leasing (Chapter 21)
2022-12-7	Lecture #10: Mergers, Acquisitions, and Divestitures (Chapter 29)
TBA	Final Examination