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# ACT 349

## Corporate Finance for Actuarial Science

### Fall 2015

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#### 1. Course Information:

**Instructor:** Lucas Thung ([lucas.thung@utoronto.ca](mailto:lucas.thung@utoronto.ca))

Office hours: Wednesdays; 7 pm to 8 pm (By Appointment) in SS 1069

**Lecture:** Wednesdays; 4 pm – 7 pm

Location: SS 1069

**Note:** Lectures will start at 4 pm for **first** lecture (Sep 16) and **last** lecture (Dec 2) only; Other lectures will start at 5 pm.

**Tutorial:** Wednesdays; 4 pm – 5 pm

**Note:** First Tutorial: Sep 23; Last Tutorial: Nov 25

Teaching Assistant	Family Name	Location
Xiucan Ding ( <a href="mailto:xiucan@utstat.toronto.edu">xiucan@utstat.toronto.edu</a> )	Amjad to Lim	SS 1069
Aaron Situ ( <a href="mailto:aronx.situ@mail.utoronto.ca">aronx.situ@mail.utoronto.ca</a> )	Lin to Zhu	SS 1070

#### 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.*

### 3. Course Textbook

**Title:** Corporate Finance (2015)

**Edition:** 7<sup>th</sup> Canadian Edition



**Authors:** Stephen Ross, Randolph Westerfield, Jeffrey Jaffe, Gordon Roberts.

### 4. 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.
- Evaluate if the stock is underpriced 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.

## 5. Evaluation

Item	Weight	Date
Class Participation	5%	On-going
Quizzes	15%	On-going
Test 1	15%	Oct 7
Test 2	15%	Nov 4
Final Exam	50%	TBD

### a) Class Participation (5%)

- Constructive participation in class discussions.
- Random attendance may be taken.

### b) Quizzes (15%)

- There will be eight (8) quizzes in total.
- Quizzes will be written in the last 15 minutes of Tutorial.
  - Students **must** write the quiz in their assigned Tutorial rooms.
- There will be 1 **or** 2 questions per quiz.
- Students **must** bring blank 8.5" x 11" papers to write their quizzes.
- There are only three (3) possible marks for each **question**:
  - 3 – Correct answer.
  - 2 – Incorrect answer, but effort is shown.
  - 0 – Absent for quiz.
- It is **not** possible to "make-up" a missed quiz.
- Students may drop their lowest quiz mark.
- Format:** **Open book** quiz, however, only printed textbook and printed notes are allowed. i.e. No electronic devices are allowed.

### c) Test 1 and Test 2 (15% each, for a combined total of 30%)

- # Questions: 15 multiple choice questions.
- Duration: 45 minutes will be allotted.
- Tests will be written in Tutorial rooms from 4:10 pm to 4:55 pm.
  - Students must write the Tests in their assigned Tutorial rooms.
- Important:** See "**Exam Rules**" section below.

### d) Final Exam (50%)

- # Questions: 50 multiple choice questions.
- Duration: 2 hours will be allotted.
- Date / Time / Location: Will be announced once they are available.
- Important:** See "**Exam Rules**" below.

## Exam Rules

- All exams (i.e. Test 1, Test 2, and Final Exam) are **closed book**, multiple-choice examinations. Dictionaries are **not** allowed into the examinations.
- Aid sheets will be provided for each exam. i.e. no need for students to print.
- 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.

## 6. Course Schedule

Tentative Coverage	Dates	Chapter(s)
Time Value of Money, How to Value Bonds and Stocks	Sep 16 (No tutorial, lecture starts at 4 pm)	5, 6
Net Present Value, Other Investment Rules and Capital Budgeting	Sep 23 <b>QUIZ 1</b>	7, 8
Risk Analysis, Real Options, and Capital Budgeting	Sep 30 <b>QUIZ 2</b>	9
<b>TERM TEST 1 (Note time)</b>	Oct 7 (In <u>Tutorial</u> at 4:10 pm)	<b>Covers materials from Sep 16 to 30 lectures</b>
Risk and Return: Lessons from Market History	Oct 7 (Lecture starts at 5 pm)	10
Risk and Return: CAPM	Oct 14 <b>QUIZ 3</b>	11
Risk, Return, and Capital Budgeting	Oct 21 <b>QUIZ 4</b>	13
Corporate Financing Decisions and Efficient Capital Markets	Oct 28 <b>QUIZ 5</b>	14
<b>TERM TEST 2 (Note time)</b>	Nov 4 (In <u>Tutorial</u> at 4:10 pm)	<b>Covers materials from Oct 7 to 28 lectures</b>

Tentative Coverage	Dates	Chapter(s)
Capital Structure: Basic Concepts	Nov 4 (Lecture starts at 5 pm)	16
Capital Structure: Limits to the Use of Debt	Nov 11 <b>QUIZ 6</b>	17
Valuation and Capital Budgeting for the Levered Firm	Nov 18 <b>QUIZ 7</b>	18
Dividends and Other Payouts	Nov 25 <b>QUIZ 8</b>	19
Leasing; Options and Corporate Finance	Dec 2 ( <b>No tutorial,</b> lecture starts at <b>4 pm</b> )	22, 23
<b>FINAL EXAM</b>	<b>Dec 11 to 22</b> <b>Exam Period</b> <b>Date / Location: TBD</b>	<b>Covers materials from the entire course</b>

## 7. Email Policies

- a) Utilize [@mail.utoronto.ca](mailto:mail.utoronto.ca) email addresses only.
  - For privacy reasons, students **must** use their U of T email accounts to contact the Instructor. The Instructor will **not** respond to emails from other emails (i.e. gmail, yahoo, rogers, etc.).
  
- b) "Subject Line" **must** include the course number.
  - The subject line of emails **must** contain the course number (i.e. **ACT 349**). The Instructor teaches different courses and cannot properly respond to questions if he does not know which course you are enrolled in.