



# ACT 349

## CORPORATE FINANCE FOR ACTUARIAL SCIENCE

### FALL 2019

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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; 2pm – 4pm in SS 2135

**Tutorial:** Wednesdays; 4pm – 5pm in SS 2135

**Note:** First Tutorial: Sep 18; Last Tutorial: Nov 27

**Teaching Assistant:** TBA

**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.*

### 3. Course Textbook & Calculator

**Title:** Corporate Finance (2015)

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



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

**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.

### 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	10%	On-going
Quizzes	10%	On-going
Test 1	15%	Oct 2
Test 2	15%	Oct 30
Final Exam	50%	TBD

### a) Class Participation (10%)

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

### b) Quizzes (10%)

- There will be six (6) quizzes in total.
- Quizzes will be written during Tutorial.
- 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**:
  - 2 – Correct answer.
  - 1 – 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.
- 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.
- 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.

## 6. Course Schedule

<b>Date</b>	<b>Topic</b>
2019-09-11	Lecture #1: Time Value of Money and How to Value Bonds and Stocks (Chapters 5 & 6)  No tutorial this week.
2019-09-18	Lecture #2: Net Present Value, Other Investment Rules and Capital Budgeting (Chapters 7 & 8)  Tutorial: Time Value of Money & Capital Budgeting Problems + <b>Quiz #1</b>
2019-09-25	Lecture #3: Risk Analysis, Real Options, and Capital Budgeting (Chapter 9)  Tutorial: Risk Analysis, Real Options, and Capital Budgeting Problems + <b>Quiz #2</b>
2019-10-2	<b>Term Test #1</b>  Lecture #4: Risk and Return: Lessons from Market History (Chapter 10)  Tutorial: Risk, Return and Portfolio Theory Problems
2019-10-9	Lecture #5: Risk and Return: CAPM (Chapter 11)  Tutorial: Calculating Portfolio Risks & Returns Problems
2019-10-16	Lecture #6: Risk, Return, and Capital Budgeting (Chapter 13)  Tutorial: Risk, Return, and Capital Budgeting Problems + <b>Quiz #3</b>
2019-10-23	Lecture #7: Corporate Financing Decisions and Efficient Capital Markets (Chapter 14)  Tutorial: More Risk, Return, and Capital Budgeting Problems + <b>Quiz #4</b>
2019-10-30	<b>Term Test #2</b>  Lecture #8: Capital Structure: Basic Concepts (Chapter 16)  Tutorial: Capital Structure Problems
2019-11-6	<b>READING WEEK – NO LECTURE OR TUTORIAL</b>
2019-11-13	Lecture #9: Capital Structure: Limits to the Use of Debt (Chapter 17)  Tutorial: Capital Structure Problems + <b>Quiz #5</b>
2019-11-20	Lecture #10: Valuation and Capital Budgeting for the Levered Firm (Chapter 18)  Tutorial: Valuation and Capital Budgeting Problems
2019-11-27	Lecture #11: Dividends and Other Payouts (Chapter 19)  Tutorial: Dividends Problems + <b>Quiz #6</b>
2019-12-4	Lecture #12: Leasing; Options and Corporate Finance (Chapters 22 & 23)  No tutorial this week.
TBA	Final Examination

## 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.

Corporate finance is an area of finance that deals with sources of funding, the capital structure of corporations, the actions that managers take to increase the value of the firm to the shareholders, and the tools and analysis used to allocate financial resources. The primary goal of corporate finance is to maximize or increase shareholder value. Correspondingly, corporate finance comprises two main sub-disciplines. Capital budgeting is concerned with the setting of criteria about which value-adding