



**The UNIVERSITY OF ILLINOIS at Urbana-Champaign**

**The Department of Economics**

**Spring 2018**

**ECON 490 (L3) Financial Economics**

Monday, Wednesday: 11:00 – 12:30 pm, DKH 209

Instructor: Xing Gao  
Email: hgao12@illinois.edu  
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Office Hour: Monday 12:30-2:00pm  
DKH Room 15

Course grader: Kyu Bong Cho  
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**COURSE OVERVIEW:**

This course discusses major topics in corporate finance: firms make decisions to increase the value of the firm for their shareholders. In the first part, we will evaluate investment projects and decide whether the firm should take or reject a project. We will also learn how to value bonds and stocks. In the second part, we will study the relationship between risk and returns. Capital asset pricing model, arbitrage and stock options will be introduced. In the third part, we will talk about firms' capital structure and payout policy. We will investigate how to apply the principles in a real-world setting by working on group projects.

**COURSE TEXTBOOK:**

Recommended:

*Corporate Finance*, Ross, Westerfield & Jaffe, (11<sup>th</sup> Edition). **McGraw-Hill Irwin**

**PRE-REQUISITE:**

ECON 302: Inter Microeconomic Theory

**CALCULATOR:**

BA II Plus, Texas Instrument, Business Analyst

We will teach how to use this financial calculator in class to compute various values, such as Net Present Value and Internal Rate of Return.

**COURSE WEBSITE:**

We will use Compass to post lecture slides, homework, project guideline and your grades. I will post a brief version of the lecture notes before the class, and a detailed version including example solutions after the class.

**EVALUATION OF STUDENT PERFORMANCE:**

Measurements	Percentage
Class Participation (including attendance 5%)	10%
Homework (4 problem sets)	20%
Group Project	10%
Midterm One (2/14/18 in class)	15%
Midterm Two (4/2/18 in class)	15%
Final Exam	30%

All exams are open-book. You can bring up to three pages of hand-written notes to the midterm exam and up to nine pages of hand-written notes to the final exam. If you have to miss a midterm because of illness or job interview, your midterm weight will be shifted to the comprehensive final exam. But you have to inform me 24 hours before the midterm starts. Otherwise, you will receive a zero for missing the midterm.

Class participation is the key to learn this course and attendance will be taken in class. You can be absent up to four times without getting points deducted if you have to miss the class for any reason. All the absences will be counted regardless of the reason (job interview, family emergency, travelling, being sick, sleep, traffic...). The attendance will be taken in the first 20 minutes of the class. Thus, if you are 20 minutes late, your attendance cannot be counted.

There are four problem sets and each has 20 points. They are supposed to be handed-in at the beginning of each class on the due day. I do not accept late homework submission, as the homework solutions will be posted online right after the due day. You can email the grader AND me the copy of homework if you cannot make it to the class, but you will only receive a score instead of a detailed feedback on the homework.

**GRADES:**

A+: 97-100	B+: 87-89	C+: 77-79	D+: 67-69
A: 93-96	B: 83-86	C: 73-76	D: 63-66
A-: 90-92	B-: 80-82	C-: 70-72	D-: 60-62
			F: 0-59

Final grades will be rounded to the nearest integer. The thresholds are strictly enforced. For example, an 89.4 is rounded to 89 and 89.5 is rounded to 90. Letter grades will be assigned at the end of the semester based on the overall score. There will be no curve in the end. Keep in mind, the class participation grade is very important and it will make a difference on your final grade.

If you have question about the grades on the homework, exam, attendance or project, please let me know as soon as possible. After the grades are posted, on Compass, all the grades are final after one week. Thus, you have one week to change your grades if there is a mistake.

**GROUP PROJECT:**

We will apply the corporate finance principles learned in class in real life. You will be assigned into a group of 4-5 people and study a public company of your choice. Your group will answer questions like what is a typical investment project for the firm, what are the different kinds of financing to raise fund, what is the debt-to-equity ratio, and what does the payout policy look like. There will be a group presentation towards the end of the semester. We will talk about the details of the project in April. Do not worry. It's very practical and interesting.

**ACADEMIC INTEGRITY:**

You can discuss the homework problems with your classmates but you have to write your own solutions. Copying others' homework solutions should be prohibited. During the exam, you should not borrow other students' notes or calculators. Copying others' notes or solutions during the exam is considered as cheating.

**FINAL EXAM CONFLICT:**

Based on the University rule, if you have 3 consecutive final exams in 24 hours, you are qualified to take the makeup exam of the class with the largest class capacity.

**STUDENTS WITH DISABILITIES:**

Special testing accommodations will only be provided through the DRES Testing Accommodation Center, so if you need accommodations please make sure you

register with DRES and get your official letter of accommodation.

**TENTATIVE COURSE OUTLINE:**

Date	Lecture	Topics	Book Chapter
1/17/18	Lecture 1	Introduction to Corporate Finance	Chapter 1
	Part I	<b>Valuation and Capital Budgeting</b>	
1/22/18	Lecture 2	Time Value of Money	Chapter 4
1/24/18	Lecture 3	Annuity and Perpetuity	Chapter 4
1/29/18	Lecture 4	Equivalent Annual Cost	Chapter 4
1/31/18	Lecture 5	Other Investment Rules	Chapter 5
2/5/18	Lecture 6	Bond Valuation & HW1 due	Chapter 8, 15
2/7/18	Lecture 7	Stock Valuation	Chapter 9, 15
2/12/18		Midterm Review	
2/14/18		Midterm I	
	Part II	<b>Risk</b>	
2/19/18	Lecture 8	Risk and Return I	Chapter 10
2/21/18	Lecture 9	Risk and Return II	Chapter 10
2/26/18	Lecture 10	The Capital Asset Pricing Model I & HW2 due	Chapter 11
2/28/18	Lecture 11	The Capital Asset Pricing Model II	Chapter 11
3/5/18	Lecture 12	Arbitrage Pricing Model	Chapter 12
3/7/18	Lecture 13	Arbitrage	Chapter 12
3/12/18	Lecture 14	Cost of Capital	Chapter 13
3/14/18	Lecture 15	Introduction to Options & HW 3 due	Chapter 22
3/26/18	Lecture 16	Valuing Options	Chapter 22, 23
3/28/18		Midterm Review	
4/2/18		Midterm II	
	Part III	<b>Capital Structure and Payout policy</b>	
4/4/18		Group Project Assignment	
4/9/18	Lecture 17	Capital Structure	Chapter 16,17, 30
4/11/18	Lecture 18	Convertibles and EPS	Chapter 24
4/16/18	Lecture 19	Dividends and Payouts I	Chapter 19
4/18/18	Lecture 20	Dividends and Payouts II	Chapter 19
4/23/18		Group Project Presentation & HW4 due	
4/25/18		Group Project Presentation	
4/30/18		Group Project Presentation	
5/2/18		Final Exam Review	
		Final Exam	