



PPHA 42510 APPLIED FINANCIAL MANAGEMENT

Draft Syllabus

Winter 2016

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COURSE SUMMARY

This course will cover topics in both corporate finance and investments. The goal is to provide students with the tools to solve problems and the practical knowledge to understand financial decision-making and financial markets. The focus will be resolutely practical – how these tools are actually used in the markets – but is built on solid theory combined with over twenty years of industry experience.

Corporate finance is all about how corporations make financial decisions. The foundation for decision-making is maximizing net present value. This sounds simple but requires a deep understanding of a range of issues: what is and how to calculate net present value, how to choose the appropriate cost of capital, risk and portfolio theory, agency problems and corporate governance, capital structure, and options. Policy students need to understand standard corporate finance that focuses on private-sector corporations, and the primary textbook (Principles of Corporate Finance by Brealey, Myers, and Allen) is a classic in the field. We will also, however, discuss how the ideas and tools integrate with the cost-benefit analysis taught in the Harris core, and how they carry over to government and non-profit organizations.

Investments is about securities and markets. Corporate finance is about making investment decisions (spending money) while investments is about financing decisions (raising money). We will discuss various types of securities: stocks, bonds, options, swaps and other derivatives. We will examine how and why corporations, governments, and other entities issue securities. We will consider market behavior and study risk and return, market efficiency, and risk management.

TEXTS

The primary texts for this course is Principles of Corporate Finance by Brealey, Myers, and Allen

PROBLEMS

Problems will be assigned and due about every one-and-a-half weeks. The problems will be more like business school case studies than standard problem sets. As in business school case studies, you should form study groups to solve and write-up the problems.

TOPICS

- The concept of present value; bonds and stocks using NPV; making investment decisions with NPV
- Practical Applications of NPV and Other Criteria
- Uncertainty – Valuing Risky Assets; Portfolio Theory and the Capital Asset Pricing Model; Options
- Financing Decisions and Market Efficiency
- Capital Structure
- Bonds and Interest Rates
- Common Stocks
- Swaps, Futures, and other Derivatives
- Risk Management and Hedging