

General Guidelines: Focus closely on the powerpoint presentations and the parts of the textbook that relate to these topics. Also, make sure that you understand the quiz questions at the end of each chapter, especially as they relate to the topics below.

The final exam is partially cumulative. In addition to the new material, the older material that you should focus on is outlined below under ‘General Knowledge’ and ‘Test 2 material’.

General Knowledge:

- What are the three main decision areas in corporate finance? What is the main objective in corporate finance and how does it differ from the goal of maximizing accounting profit?
- Be able to work time value of money problems (e.g., the basic scenarios such as calculating the present value of an annuity, solving for an interest rate ($r\%$), etc.).
- How do you value a perpetuity and a growing perpetuity (i.e., constant growth)?
How would you value a perpetuity in which the first payment starts in year 2 or later (i.e., a deferred perpetuity)?
- Understand how to find the value of a bond.

*Midterm Exam
Material:*

- Be able to use the different project evaluation methods (specifically, NPV, IRR, MIRR, and PI). For mutually exclusive projects in which NPV and IRR differ, which is more reliable?
 - How do you estimate a project’s operating cash flow (OCF)?
 - What is the incremental IRR, in which situations is it useful, and how do you calculate it?
 - Know the CAPM equation.
 - Understand the relationship between risk and return. For example, which source of new capital typically has the highest cost? What type of bond would have the lowest interest rate?
 - Be able to calculate the weighted average cost of capital (WACC).
 - Know how to calculate the expected return and the standard deviation of returns for a single stock.
 - Remember the importance of correlation or covariance in the diversification of risk.
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Chapter 14: Market Efficiency

- What are the three levels of market efficiency? How would you test the weak form, and the semi-strong form?
For example, stock price changes generally show very low serial correlation. This observation would support which level of market efficiency?
- What is behavioral finance and how is it at odds with market efficiency?

Chapters 16 & 17: Capital Structure

- Know the factors that influence the use of debt (e.g., business risk, intangible vs. tangible assets, etc.). For example, higher debt ratios would be more likely to be found in industries where earnings are pretty (a) steady or (b) volatile?
- As the firm uses more debt financing, how does this affect stockholders?
- Know the degree of operating leverage concept.
- What is the optimal capital structure for a firm?
- What is the pecking order of financing?
- How does financial leverage affect firm performance, as measured by common accounting variables such as net income, EPS, or ROE (see example in slides)?
- Understand what we mean by financial distress costs.
- What are the agency costs of debt? What are some examples? What are bond covenants and why are they used?

Chapters 19: Dividend Policy

- Understand what the dividend theories say (specifically focus on the signaling theory and the free cash flow theory).
- What happens when a firm does a stock split? What are the similarities and differences between a stock dividend and a stock split? Why might a company do a stock split? What is a reverse split?
- What do we know about how dividend policy is implemented in the real world?