

Corporate Finance Proficiency Exam: Topical Outline

Note: The basic material on this examination is covered in Brealey, Myers, and Allen, *Principles of Corporate Finance*, Damodaran, *Corporate Finance: Theory and Practice*, and other standard Corporate Finance textbooks. There is also a wealth of useful material, including practice problems and old exams, on Professor Damodaran's website: <http://pages.stern.nyu.edu/~adamodar/>. This topical outline is indicative of the topics covered and is not intended as an exhaustive list of topics on the proficiency exam.

1. Basics of Interest Rates
 - a. Risk-free return and risk premiums
 - b. Term structure and credit risk structure of interest rates
2. Time Value of Money
 - a. Valuing risk-free and risky cash flows
 - b. Net present value, payback period, and internal rate of return
 - c. Valuing annuities and perpetuities
3. Option Valuation
 - a. Relationship of option price to underlying variables
 - b. Valuing convertible bonds
 - c. Real options
4. Efficient Markets and Financing Decisions
5. Relating Risk and Return on Financial Assets
 - a. The Capital Asset Pricing Model (CAPM)
 - b. Systematic and unsystematic risk
 - c. Alternative theories of asset pricing
6. Cost of Capital Concepts
 - a. Estimating the cost of debt and equity
 - b. Weighted average cost of capital
 - c. Modigliani-Miller theorem
7. Project/firm valuation
 - a. Calculating expected cash flows
 - b. WACC, APV and FTE approaches
8. Capital Structure Concepts
 - a. Costs and benefits of debt versus equity
 - b. Optimal capital structure
 - c. Selecting a capital structure
 - d. Pecking order theory
 - e. Relating risk to capital structure
9. Dividend and Stock Buy-Back Policy
 - a. Conditions under which dividend policy matters to shareholders
 - b. Dividends and signaling theory
 - c. Alternative ways of returning cash to shareholders