Syllabus for the Transitional Exam for

VEE-Corporate Finance

This 90-minute, multiple-choice examination will be administered by the CAS to satisfy the Validation by Educational Experience (VEE)–Corporate Finance requirement for candidates who have not taken the required courses. The first administration of this exam will occur in August 2005. Details about the 2005 administration, including the date and exam fee, will be posted in the "Admissions" section of the CAS Web Site (www.casact.org) in November 2004.

The purpose of this examination is to test the candidate's basic knowledge of concepts from corporate finance. These concepts are fundamental to understanding the general business environment. Basic knowledge of calculus and probability is assumed.

LEARNING OBJECTIVES

1. Candidates should understand and be able to analyze financial statements including balance sheets, income statements, and statements of cash flow. Candidates should be able to calculate discounted cash flows, internal rate of return, present and future values of bonds, and apply the dividend growth model and price/earnings ratios concept to valuing stocks.
2. Candidates must be able to assess financial performance using net present value and the payback, discounted payback models, internal rate of return, and profitability index models. Candidates should be able to analyze statements and identify what should be discounted, what other factors should be considered, and the possible interactions between models.
3. Candidates should understand the trade-off between risk and return, the implications of the efficient market theory to the valuation of securities, and be able to perform the following:
   - Apply measures of portfolio risk and analyze the effects of diversification, systematic and unsystematic risks. Calculate portfolio risk and analyze the impact of individual securities on portfolio risk
   - Identify efficient portfolios and apply the CAPM to firm cost of capital measures
   - Value cash flows and analyze the certainty equivalent versus risk-adjusted discount rates using assumptions for inflation, the term structure of interest rates, and default risk correctly in their calculations
4. Candidates should understand the following concepts and be able to use them to analyze financial structures:
   - Efficient markets and their effect on security prices
   - Capital structure and the impact of financial leverage and long- and short-term financing policies on capital structure
   - Sources of capital and the definitions of techniques for valuing basic options such as calls and puts
5. Candidates should understand and be able to analyze financial performance by evaluating financial statements and financial ratios such as leverage, liquidity, profitability, market value ratios and analysis of accounting return versus economic return.
6. Candidates should understand and be able to apply the basic principles of option pricing theory including:
   - Black-Scholes formula
   - Valuation of basic options

Note: Concepts, principles, and techniques needed for VEE-Corporate Finance are covered in the references listed below. Candidates and educators may use other references, but candidates should be very familiar with the notation, terminology, and viewpoints espoused in the listed references. A table of values for the normal distribution and the Black-Scholes formula will be provided with the examination.

READINGS

Brealey, R.A.; and Myers, S.C., *Principles of Corporate Finance* (Seventh Edition), 2003, McGraw-Hill, Chapters: 1, Finance and the Financial Manager; 4, The Value of Common Stocks; 5, Why Net Present Value Leads to Better Investment Decisions than Other Criteria; 6, Making Investment Decisions with the Net Present Value Rule; 7, Introduction to Risk, Return, and the Opportunity Cost of Capital; 8, Risk and Return; 9, Capital Budgeting and Risk; 10, A Project is Not a Black Box; 11, Where Positive Net Present Values Come From; 12, Making Sure Managers Maximize NPV; 13, Corporate Financing and the Six Lessons of Market Efficiency; 14, An Overview of Corporate Financing; 15, How Corporations Issue Securities; 16, The Dividend Controversy; 17, Does Debt Policy Matter?; 18, How Much Should a Firm Borrow?; 19, Financing and Valuation; 20, Understanding Options; 21, Valuing Options; 22, Real Options; and 29, Financial Analysis and Planning. [Candidates may also use the sixth edition, Chapters 1, 4-21, and 28.]