

BUSINESS ADMINISTRATION 351

Financial Management Spring Semester 2005

INSTRUCTOR: Deborah N. Pittman
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OFFICE HOURS: 11:30-12:30 Tues Thurs
4:30 –5:30 Tues Thurs
Other times by appointment

REQUIRED TEXTS: Fundamentals of Corporate Finance, by Ross, Westerfield and Jordan, sixth edition. This includes a Student Problem Manual, an Excel Tutorial CD, and a Self-Study CD.

REQUIRED: Financial calculator, SHARP EL-733

REQUIRED: Daily reading of Wall Street Journal

COURSE OBJECTIVES:

By the end of the course, the student should:

1. Understand NPV as a basic concept of corporate finance and be proficient in solving all types of time value of money problems.
2. Appreciate the relevance of finance in our daily lives through exposure to contemporary financial issues by outside reading and selected videos.
3. Have a sound grasp of underlying financial theories and the objectives and tradeoffs involved in corporate financial decision making.
4. Understand how today's financial managers use spreadsheets and calculators to perform financial analysis and make capital budgeting decisions.
5. Be familiar with the key contributions of the Nobel laureates in financial economics, specifically Markowitz, Sharpe, and Miller and Modigliani.

COURSE STRUCTURE AND RESOURCES:

Lectures, working homework problems, written assignments using computer spreadsheets, and outside reading of contemporary issues will all be used in this course. It has been found that students of finance learn better when they have plenty of opportunity for practice. There are many new concepts being introduced, all of which build on one another, and the student must stay current with the schedule in order to understand the lectures.

The Ross, Westerfield, and Jordan text has a strong approach to teaching the first course in finance. It emphasizes the modern fundamentals of finance and makes the subject come alive with contemporary examples. Corporate finance is the working of a small number of integrated and very powerful intuitions. These are emphasized in the Ten Important Concepts that is in the General Folder.

Class time will begin by answering questions left over from the previous session and placing the current topic in perspective to the course's objectives. There will be chapter lectures which will include working problems as a class or in small groups and then among the class as a whole.

The course will be organized around the 351 Folder housed in

http://fileserv1\Acad_Dept_Pgm\Econ_Bus\Pittman_Deborah\Public

Please look in the folder that is named with the date of the next class before you come to class. It contains:

1. A Chapter Outline if we are beginning a new chapter
2. A PowerPoint Presentation that pertains to the chapter we are beginning
3. Any articles you are to read before class, and it contains
4. A practice quiz that will review the new terminology of the chapter.

You may want to print out some of this material before class – especially the Chapter Outline – and bring it with you so that you may take notes. If there is nothing in the next folder then we are continuing the chapter from the previous class.

Students are responsible for reading the assigned material, and working the homework problems at the end of the chapter that relate to the readings before coming to class.

We are using the alternate edition of RWJ, which includes several chapters that are only used in International Finance and the Case Studies course. This enables the student to avoid additional costs in upper level courses.

The Excel Tutor, the Student Problem Manual, and the Self-test CD are all supplements that support your study of this material. The student problem manual contains concepts for

review, chapter highlights, and problems and tests along with answers in the back of the book. They are to help you master the material and provide more practice outside of class. You will not have assignments from these packets. The Student Problem Manual will be helpful as you review for tests.

GRADING:

The grading scale is as follows:

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

Grades will be based on the following:

1. Chapter Test 1	20%	
2. Chapter Test 2	20%	
3. Chapter Test 3	20%	
5. Written Assignment		20%
7. Final Exam	20%	
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		100% plus Bonus Opportunity Points

Each grade will be scored in terms of 100 points. Then the scores will be weighted as indicated above to determine the final grade. Bonus points will be accumulated, divided by the total bonus points possible, and weighted by 6% so that the average bonus points earned times .06 equals the points added to your final grade for the course.

Students with a 93 or better average on all three tests will be exempt from the final exam, with the average of the first three tests counting 80% of their grade.

Alternatively, students may drop one of the first two tests. All students must take the third test. The weight of the two remaining grades will represent 60%.

Homework Problems:

Students are encouraged to work on the homework problems with another student or in groups. I will ask that students form study groups on the first day of class.

Although homework will not be collected, it is essential that you keep up with your homework. The end-of-chapter problems, the problems on the bonus opportunities, and the problems that the instructor works in class are indicative of the problems you will find on the tests. There is no substitute for working as many problems as possible. A copy of the authors' answers to the homework will be kept in the box outside of my door. The instructor's manual may be borrowed for one hour at a time. Please be considerate of your classmates.

Chapter Tests:

There will be three tests, each covering a major portion of material. The test dates are indicated in the course schedule. They will be offered at times outside of class. See your syllabus. If, for some reason you cannot avoid missing an exam, or if an emergency arises, contact me as soon as possible. Those students with college-related activities may take the test earlier, but not later than other students.

You will need to bring your calculator to each of the chapter tests and the final examination. These tests will be problems and essays, weighted approximately 50/50. They will only cover certain chapters, but the student will soon recognize the "building-block" nature of the chapters. Tests will cover the chapters in the textbook, the lectures on those chapters, and any outside material passed out in conjunction with the chapters.

Financial Analysis Project:

The financial analysis project is meant to provide you with practice in thinking critically; you will also work with computer spreadsheets and sharpen your writing skills. The financial analysis project consists of three phases: (1) ratios (2) cash flow statement and (3) narrative. You will receive points for each portion of the assignment. The student will turn in two spreadsheets that he or she programmed. The spreadsheet portion of the assignment is intended as a learning experience. The spreadsheet assignments are not group projects, because one can't learn to program spreadsheets effectively unless one does the project individually. In general, programming help is acceptable if it results in learning how to program a spreadsheet. Help is not acceptable if the result is that someone else makes changes in your spreadsheet because you don't know how to make the appropriate changes yourself. Copying all or part of another person's file into your spreadsheet, either electronically, or keystroke by keystroke is a violation of the Honor Code. Obtaining any help from any source on the analytical part of the case or the research part of the case is a violation of the Honor Code.

I will offer some voluntary classes at night to give extra help in the computer lab, and you are always encouraged to come to my office for help. If you have never programmed Excel spreadsheets, you will find the Excel tutorial included with your text helpful.

Bonus Opportunities:

During most classes there will be opportunities for students to earn additional grade points (up to 6% of the original possible points) through short quizzes or problems given in class. Since these are bonus opportunities, and grades do not count against the student, there are absolutely no make-ups on these, regardless of your reason for a class absence. Bonus opportunities are designed to encourage students to stay caught up and to attend class having prepared the daily assignment. The material covered on the bonus opportunities will come from the day's assignment or from the previous class' lecture.

Attendance Policy:

If you are absent from class due to illness or other excusable reason, you must provide me an explanation of the absence. Always follow up with an e-mail explanation so I will have a record. Whenever possible, this explanation should be given prior to the absence so your work may be continued with minimal interruption. Absences for which an excuse is not given or not accepted is an unexcused absence. It is the responsibility of the student to determine what make-up work is to be submitted whether the absence is excused or unexcused. When excessive absences from class jeopardize your work in the course, the Asst. Dean of Academic Affairs Notice will be sent as a warning that further absences will result in at least a lowering of the final grade, and may lead to failure in or a suspension from the course. If you receive such a notice, I ask that you meet with me immediately so that there is a complete understanding of the implications of continued absences. You will not be permitted to make-up Bonus Opportunities, whether excused or unexcused.

Course Schedule

DATES	TOPICS and ASSIGNMENTS
Jan 13	Course Introduction What is Corporate Finance? Accounting, Economics and Statistics Review

Video: Careers in Finance

Jan 18 HW: Read Chapter 1 and answer questions at end of chapter

Chapter 1: Introduction to Corporate Finance

Forms of Business Organizations

Goal of Financial Management

Agency Problem

Cash flows between the firm and the financial markets

Primary versus Secondary Markets

Video: Role of the Chief Financial Officer

Jan 20 HW: Read chapter 2 and work problems at end of chapter

Chapter 2: Financial Statements, Taxes, and Cash Flow

Cash Flow Identity

The Balance Sheet

Income Statement

Taxes

Jan 25 HW: Work cash flow identity in folder

Chapter 2 continued

Video: Financial Markets

Liquidity

Jan 27 HW: Read Chapter 5 and Sharp EL-733 Owners Manual

Chapter 5: Introduction to

Time Value of Money

Future Value and Compounding

Present Value and Discounting

Work Problems on Calculator

Feb 1 HW: Read Chapter 6 and work problems at end of chapter 5

Chapter 6: Discounted Cash Flow

Multiple Cash flows: Annuity and Unequal

Compounding more frequently than annually - EAR

- Feb 3 HW: Work first half of problems at end of chapter 6
- Chapter 6: Discounted Cash Flow
- Feb 8 HW: Work second half of problems at end of chapter 6
- Chapter 6 continued
Mortgages, Installment Loans, Add-on interest loans
Two Step Problems
- Feb 10 **Review Session During Class**
Test #1
6:00-7:15 P.M. or 7:30-8:45 P.M.
- Feb 15 HW: Read chapter 3 and work problems at end of chapter
- Chapter 3: Working with Financial Statements
Discussion of Written Assignment
Financial Statement Analysis
The DuPont Identity
- Feb 17 HW: Work cash flow statement problem and industry ratio problem in folder
- Chapter 3: Working with Financial Statements
Ratio Analysis
Cash Flow and Financial
Statements
- FEB 17 6:00 P.M. in COMPUTER LAB: VOLUNTARY HELP SESSION ON
SPREADSHEETS**
- Feb 22 HW: Read Chapter 7 and work end of chapter problems
- Chapter 7: Interest Rates and Bond Valuation
- Bond and Bond Valuation
Inflation and Interest Rates
Determinants of Bond Yields
Video: Bonds
- Feb 24 HW: Read Chapter 8 and work end of chapter problems

Chapter 8: Stock Valuation
Difference between valuation of stocks and bonds
Common Stock Valuation
Three Growth Assumptions

Mar 1 HW: Read Chapter 9 and work end of chapter problems

**DUE:PHASE 1 of Financial Analysis Project
Ratios, Common-Size Balance Sheets and Income Statements for
Project (Place spreadsheet file with your name on it in my Pittman
Inbox)**

Video: Capital Budgeting
Chapter 9: Net Present Value
Calculation of NPV
Calculation of Payback
[Ignore Discounted Payback](#)
Average Accounting Return
Internal Rate of Return
Video: Capital Budgeting
[Ignore Profitability Index](#)
Problems with the IRR
NPV Profile and Crossover rate

Mar 3 HW: Read Chapter 10 and work easier problems at end of chapter

Begin Chapter 10
Concepts: Relevant Cash Flows
Stand-Alone Principle
Sunk Costs
Opportunity Costs
Side Effects
Net Working Capital
Financing Costs

Mar 15 HW: Read Chapter 10 and work remainder of problems at end of chapter including EAC and Setting the Bid Price

Chapter 10: Making Capital Investment Decisions
Alternative Definitions of Operating Cash Flows
Cost Cutting Proposal
Setting the Bid Price
Equivalent Annual Cost for Projects with Different Lives

- Mar 17 **Review Session During Class**
TEST #2
6:00-7:15 P.M. or 7:30-9:00 P.M.
- Mar 22 Begin Chapter 12
 Some Lessons from Capital Market History
 Dollar Returns and Percentage Returns
 Historical Record
 Video: Test Your Insider I.Q.
- Capital Market Efficiency
 Forms of Market Efficiency
 Longer Investment Horizons
- Mar 22 HELP SESSION IN COMPUTER LAB AT 6:00 P.M. ON**
PROGRAMMING CASH FLOW
- Mar 29 HW: Read Chapter 12 and work problems at the end of the chapter
 Chapter 12 (continued) Emphasis on Capital Market Efficiency and
 Insider Trading
 Ibbotson Asset Allocation Library Presentation
- Mar 31 HW: Read Chapter 13 and work problems at the end of the chapter
- Chapter 13: Risk, Return, & the Security Market Line
 Expected Returns and Variances
 Portfolio Returns
 Portfolio Variances
- Apr 5 **DUE: PHASE 2 of Financial Analysis Project:**
Cash Flow Statement; name the spreadsheet file with your name and place in
Pittman Inbox Folder
- HW: Work remainder of the problems in Chapter 13
- Chapter 13 continued
 Announcements, Surprises, and Expected Returns
 Risk: Systematic and Unsystematic
 Diversification and Portfolio Risk
 Systematic Risk and Beta
 The Security Market Line

The SML and the Cost of Capital
Video: Portfolio Management

- Apr 7 HW: Read Chapter 15 and work problems at the end of chapter
- Chapter 15: Cost of Capital
 Required return, cost of capital, appropriate discount rate
 Cost of equity
 Cost of debt and preferred stock
 Weighted average cost of capital
 Divisional and Project Costs of Capital
 Flotation Costs and the WACC
- Apr 12 Chapter 15 continued
- Apr 14 HW: Read Chapter 17
- The Capital Structure Question
 Example of the Effects of Leverage
- Apr 19 HW: Work problems in Chapter 17 folder
- Chapter 17 continued
- M&M Proposition I and II without taxes
 M&M Proposition I and II with taxes
 Static Theory of Capital Structure
- Apr 21 **DUE: PHASE 3 of Financial Analysis Project;**
 Narrative Section of Project, including Graphs
 Turn in printed presentation at the beginning of the class
- Chapter 17 continued
- Apr 26 HW: Read Chapter 16, pp. 525-546; (do not work problems)
 Video: Going Public
- Apr 28 **Review Session During Class**
 TEST #3

6:00 – 7:15 P.M. or 7:30 – 9:00 P.M.

Exam dates:

You may select **any of the three times.**

Monday, May 2	5:30 P.M.
Tuesday, May 3	1:00 P.M.
Friday, May 6	5:30 P.M.

**SUGGESTED READINGS FOR THOSE INTERESTED IN PURSUING A CAREER IN
FINANCE OR GRADUATE WORK IN FINANCE:**

Peter Bernstein's history of the development of financial theory called *Capital Ideas*
Three Nobel Laureates in finance: seminal works of Sharpe, Markowitz, and Miller
A Random Walk Down Wall Street ,by Malkiel
Graham and Dodd's Security Analysis
Berkshire Hathaway Annual Report by Warren Buffet

Suggested contemporary books are:

Infectious Greed by Partnoy

Take on the Street by Levitt

Irrational Exuberance by Shiller

Beyond Greed and Fear by Shefrin

24 Days: WSJ reporters on Enron's demise

Against the Gods: The Remarkable Story of Risk by Bernstein

The Revolution in Corporate Finance edited by Stern and Chew

The Bear Book by Rothchild

*I keep copies of these readings in my office, should you wish to borrow them.

Advice from a previous semester's students when asked "Is there anything that you did that particularly helped you perform well in this course? Is there anything you wish you had done that in retrospect would have helped you?"

1. Do all of the homework and stay caught up on the readings.
2. Read chapters. Do problems.
3. Go to class and do homework problems. Practice is good.
4. Do all your homework, when it is assigned to you.
5. Do not skip class and read the chapters the night before the test.
6. Read, (comprehend!) the book. What worked best for me was to outline the important concepts and equations from the book before class, which helps –bringing me to the next point. Studying bonus opportunities and handouts was THE most effective way to prepare for tests.
7. Keep on top of the theory and essay material type aspects instead of purely concentrating on the math so much. Both are equally important and both must be done.
8. Work back over problems within a couple of days of learning how to do them – make sure you really understand on your own and not just when the professor goes over them.
9. Keep up with reading – saves a lot of time when studying for essays on tests.
10. Working out problems outside of class is very helpful because it is the only way you can truly know if you understand the material.
11. Ask questions if you don't understand because IT WILL come up again in later chapters.
12. Know how to use the calculator!
13. Reading, outlining the chapters, and working problems in the back of the chapter were helpful. I would recommend copying the answers from the solution book and working at least some of the problems at the end of every chapter.
14. It would have helped me if I read and worked problems as we went along more. Especially in doing well on the bonus opportunities. I would study more for the quizzes if I had to do it over again.

Instructions for Financial Analysis Project

The assignment is to read the annual report of IBM, present the last five years of financial statements on a spreadsheet, compute ratios using EXCEL, and analyze the results.

Phase One:

Compute the following ratios:

- DuPont ratios
- Common size balance sheet
- Common size income statement
- Financial ratios in Table 3.8 on page 72.

You must **use formulas** to compute these ratios. The objective of the exercise is to learn to program a spreadsheet. You will use the copy command once you have programmed one year's results.

Spreadsheet should be saved to a file in your name, and placed in the Pittman Private folder.

Phase Two:

Use the balance sheet and the income statement to compute a cash flow statement on your own

Spreadsheet should be saved to a file in your name, and placed in the Pittman Private folder.

Phase Three:

Prepare analysis in accordance with provided outline entitled "Tools of Financial Analysis" after referring to company's SEC reports, footnotes of financial statement, peer ratios from ZACKS, and press releases. It should be YOUR ANALYSIS supported by facts, not assertions by security analysts.

Create 3 graphs indicating what you consider the most interesting trends in the company's financial condition. Your written narrative and graphs will be turned in on the last day of class.

You should present a financial analysis of this company, no longer than five pages double-spaced. I have examples of financial analyses from previous classes outside my office door should you wish to borrow them. The financial analysis should address your opinion of the financial health of the company based on the trends that you observe. You may utilize current articles about the company and its industry to develop some additional insights into the reasons for the financial trends that YOU observe. Any articles used should be printed and turned in with your analysis. No article should be referenced unless it supports some financial trend that you computed.

You will be graded on the accuracy of your computations, your ability to communicate in writing, your analytical abilities, and completeness. Phase One will count 25%, the cash flow statement will count 25%, and the narrative will count 50%. The folder entitled Financial Analysis Project contains information that will be helpful to you for this project: It contains samples of previous financial analysis projects, a grading sheet, the Tools of Financial Analysis and a chart depicting financial health.

