



## **BUS 351-01, Corporate Financial Management, Fall 2012**

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**Business 351 - Corporate Financial Management  
Fall 2012**

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Office Hours: Monday 1:00pm – 3:00pm, Wednesday 10:00am – 12:00pm, after class or by arrangement with the instructor.

Required Text: *Fundamentals of Corporate Finance*, by Ross, Westerfield and Jordan, 10<sup>th</sup> ed.

Required Readings: *The Founders of Modern Finance: Their Prize-Winning Concepts and 1990 Nobel Lectures*  
*Capital Ideas* by Peter Bernstein  
(on reserve in the library)

This course will also access the internet for content periodically, and links and articles may be assigned.

Daily Reading: Wall Street Journal

Required: Financial calculator, TI BA II Plus

Prerequisites: Economics 100; Economics 290 or Math 111; Business 243

## Course Objectives:

Corporate Financial Management is an introductory finance course that is required for all Commerce and Business majors. It is designed to cover those areas of finance that are important to all managers whether they specialize in finance or not. The course will be divided into four parts:

Part I: Tools – In the first phase of course, students will be introduced to the tools that are imperative for survival in the later parts of the course. Major topics include financial statement and ratio analysis, time value of money and discounted cash flows.

Part II: Valuation & Investment Decisions – Students will be exposed to fixed income and equity valuation and will be challenged to leverage the tool set derived from Part I of the course. This part of the course also covers capital investment decisions (i.e., determining which investments a firm should undertake).

Part III – Risk / Return & Capital Asset Pricing Model (CAPM) – Students will learn about CAPM which is widely used in capital budgeting and is one of the cornerstones of modern finance. Additionally, the course will review the key contribution of the Nobel laureates Markowitz and Sharpe.

Part IV – Cost of Capital & Capital Structure: In the final part of the course, students will consider firms financing decisions. What mix of debt and equity should the firm use to raise funds to finance its investments? In order to answer this question, students will learn to calculate the weighted average cost of capital (WACC).

A course outline is provided on pages 7 and 8 that summarizes the major topics covered throughout the semester. Excel spreadsheets and financial calculators will be leveraged to master many of these topics (specifically, performing financial analysis and making capital budget decisions). Additionally, students will become familiar with contemporary financial issues and key contributions of the Nobel laureates in financial economics (Markowitz, Sharpe, and Miller and Modigliani).

### Course Structure and Resources:

Lectures, working homework problems, written assignments using excel 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.

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:

<\\fileserver1\Acad Dept Pgm\Commerce and Business\Planchon Jade\Public\351>

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

1. Chapter Outlines
2. PowerPoint Presentations
3. Any articles you are to read before class
4. Practice quizzes that will review the new terminology of the chapter

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.

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 calculated using the following weights:

Test 1	20%
Test 2	20%
Test 3	20%
Attendance & Participation	5%
Financial Analysis Project	15%
Final Exam	20%
<b>Total</b>	<b>100%</b>

*Note: All students will take all three tests plus the comprehensive exam. You may drop the lower of your first two test grades with the eliminated twenty points spread across the other two tests and final exam (each increasing their weight from 20% to 26.67%).*

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.

Homework Problems: Students are encouraged to work the back of chapter problems with another student or in groups. 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.

Tests: There will be three tests, each covering a major portion of material. The test dates are indicated in the course schedule. See your syllabus. If, for some reason you cannot avoid missing an exam, or if an emergency arises, contact me as soon as possible. If you miss an exam (with a valid excuse), I reserve the right to refuse a make-up, and increase the weight of the comprehensive final accordingly.

You will need to bring your TI BA II Plus calculator to each of the tests and the final examination. No other calculators will be allowed during the exams. These tests will consist of multiple choice questions, problems and essays. 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 assigned.

Attendance & Participation: 5% of your course evaluation will be based on your classroom performance. Students are required to attend class and actively participate. Attendance is mandatory as the course materials

are challenging and some may not be covered by the required reading assignments. Students are expected to actively participate in class discussion and ask questions on the material assigned. Additionally, students are required to read the WSJ and come to class ready to discuss current business affairs. Communicating ideas is an important part of a business professional's job, and debating among peers can often foster a more conducive learning environment.

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. An absence for which an excuse is not given or not accepted is an unexcused absence. It is the responsibility of the student to determine what makeup work is to be submitted whether the absence is excused or unexcused. In case of excessive absences (more than 3 uninformed absences), I reserve the right to lower your final grade. Further absences may lead to failure in or a suspension from the course.

Being Late to Class: I expect that you will come on time to class and stay for the full lecture. In addition to emailing me an explanation for any absences, please send me an email prior to the start of class if you plan to arrive late or leave early due to a special circumstance. This will allow us to make arrangements that minimize disruptions to the class.

**Assignments (including bonus opportunities) are due at the beginning of class. No late work will be accepted.**

Laptop Policy: Unless approved by the instructor, laptops are not allowed during class time.

Disability Services: If you have a documented disability and wish to receive academic accommodations, please contact the Office of Student Disability Services at x3885 as soon as possible. Anyone who has received documentation through Disability Services and needs accommodations for testing should let me know well before the first exam. It is your responsibility to email me at least three days before each exam so that we can work with the departmental assistant to schedule any accommodations.

Honor Code: Any student found in violation of the Honor Code for conduct in this course may be assessed a penalty by me, up to and including failure of the course.

During class, your cell phone must remain off and stored out of sight. If your cell phone is out during a quiz or exam, I reserve the right to report a grade of "F" for the assignment and submit your name to the Honor Council for further investigation.

### **Financial Analysis Project:**

The financial analysis project is meant to provide you with practice in thinking critically; you will also work with excel 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 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 is limited to using all the features of excel. 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.

If needed, you are always encouraged to come to my office for help.

Details of the assignment will be provided in class at an appropriate stage.

## **Detailed Course Outline:**

### Part I: Tools

#### Financial Statements

- Cash flow
- Common Size Statement
- Financial ratios
- DuPont analysis

#### Time Value of Money

- Present and future values
- Rates of return
- Simple vs. compounded interest
- Discount rates

#### Discounted Cash Flow

- Multiple cash flows
- Annuities and perpetuities
- Effect of compounding
- Annual Percentage Rate (APR) vs. Effective Annual Rate (EAR)
- Introduction to loan payments and interest rates

### Part II: Valuation & Investment Decisions

#### Applications to Fixed Income Valuation

- Bond features – coupon, face value, coupon rate, maturity
- Yield to maturity
- Bond value vs. interest rates (inverse relationship)
- Interest rate risk
- Effects of inflation - real vs. nominal returns
- Yield curve

#### Applications to Stock Valuation

- Using present value methods to value equity
- Determining dividend growth
- Net present value (NPV) of growth opportunities
- Common vs. preferred stocks

#### Net Present Value & Other Investment Criteria

- Payback rule
- Definition of Internal Rate of Return (IRR)
- Comparing NPV and IRR: Accept or reject decision
- Comparing NPV and IRR: Mutually exclusive projects

#### Capital Investment Decisions

- Overview of capital budgeting
- Sunk costs and opportunity costs



- Working capital
- Pro Forma Financial Statements
- Deprecation

### Part III: Risk / Return & CAPM

#### Capital Market History

- Historical returns
- Investment selection
- Efficient Markets Hypothesis

#### Expected Returns and Risk and the Security Market Line (SML)

- Portfolio analysis
- Diversification
- Risk: Systemic (non-diversifiable) and Unsystemic (diversifiable)
- Security Market Line – Beta and Risk Premium
- Capital Asset Pricing Model (CAPM)

### Part IV: Cost of Capital & Capital Structure

#### Cost of Capital

- Cost of Equity
- Cost of Debt
- Weighted Average Cost of Capital (WACC)

#### Raising Capital

- Venture Capital
- Underwriters
- IPOs

#### Capital Structure Policy

- Financial leverage
- Modigliani and Miller proposition in a frictionless market
- Corporate taxes
- Costs of financial distress

## **For those interested in pursuing a career in finance or graduate work in finance:**

### Suggested Books

- Liar's Poker, by Lewis
- A Random Walk Down Wall Street, by Malkiel
- Monkey Business: Swinging through the Wall Street Jungle, by Rolfe and Troob
- Graham and Dodd's Security Analysis
- Value Investing: From Graham to Buffet and Beyond, by Greenwald, Kahn, Sonkin and Biema
- Too Big to Fail, by Sorkin
- Fooled by Randomness, by Taleb
- Boomerang: Travels in the New Third World, by Lewis
- Against the Gods: The Remarkable Story of Risk, by Bernstein

### Suggested Magazines, Internet Resources and Blogs

- Fortune
- Forbes
- Bloomberg BusinessWeek
- Vanity Fair
- Morningstar – [www.morningstar.com](http://www.morningstar.com)
- Bloomberg – [www.bloomberg.com](http://www.bloomberg.com)
- Yahoo Finance – [www.finance.yahoo.com](http://www.finance.yahoo.com)
- Investopedia - a premiere resource for investing education  
<http://www.investopedia.com/>
- The Big Idea – Barry Ritholtz's blog, where he shares his macro perspective on the capital markets and the economy  
<http://www.ritholtz.com/blog/>
- Deal Book - a financial news service reporting on mergers, acquisitions, venture capital and hedge funds and is produced by The New York Times  
<http://dealbook.nytimes.com/>
- Bill Gross' Investment Outlook (published monthly)  
<http://www.pimco.com/EN/Experts/Pages/BillGross.aspx>
- Term Sheet – Fortune's newsletter on the deals that matter, from Wall Street to Sand Hill Road  
<http://finance.fortune.cnn.com/category/term-sheet/>
- A VC - Musings of Fred Wilson, a New York-based venture capitalist  
<http://www.avc.com/>

### Interview Preparation

Please come see me if you would like to discuss interview preparation. Our department and career services have many manuals and books that I can recommend, including the Vault Guides. Additionally, there is material in your textbook that we do not cover in class that I recommend reviewing.

## Tentative Course Schedule:

Date	Topic	Textbook Reading Assignment	Due
<b>PART I : Tools</b>			
Wed	Aug-22	Review of Course & Introduction to Finance	
Fri	Aug-24	Introduction to Corporate Finance	Ch. 1
Mon	Aug-27	Introduction to Corporate Finance, cont.	
Wed	Aug-29	Financial Statements, Taxes & Cash Flow	Ch. 2.1 - 2.3
Fri	Aug-31	Financial Statements, Taxes & Cash Flow, cont.	Ch. 2.4 - 2.5
Mon	Sep-3	<b>Labor Day Holiday - No Class</b>	
Wed	Sep-5	Financial Statements, Taxes & Cash Flow, cont.	
Fri	Sep-7	Time Value of Money	Ch. 5
Mon	Sep-10	Discounted Cash Flow	Ch. 6
Wed	Sep-12	Discounted Cash Flow, cont.	
Fri	Sep-14	Discounted Cash Flow, cont.	
Mon	Sep-17	Discounted Cash Flow, cont.	
Wed	Sep-19	Discounted Cash Flow, cont.	
Fri	Sep-21	Working with Financial Statements	Ch. 3.1 - 3.2
Mon	Sep-24	Working with Financial Statements, cont.	Ch. 3.3 - 3.6
Wed	Sep-26	Part I Recap	
<b>Test #1 - 6-7:30pm OR 7:45-9:15pm (Buckman 108)</b>			
<b>PART II: Valuation &amp; Investment Decisions</b>			
Fri	Sep-28	In-Class Excel Review	
Mon	Oct-1	Working with Financial Statements, cont.	
Wed	Oct-3	Interest Rates & Bond Valuation	Ch. 7
Fri	Oct-5	Interest Rates & Bond Valuation	
Mon	Oct-8	Stock Valuation	Ch. 8.1
Wed	Oct-10	Stock Valuation	Ch. 8.2-8.3
Fri	Oct-12	NPV and Other Investment Criteria	Ch. 9
Mon	Oct-15	<b>Fall Break - No Class</b>	
Wed	Oct-17	Making Capital Investment Decisions	Ch. 10.1 - 10.4
Fri	Oct-19	Making Capital Investment Decisions	Ch. 10.5 - 10.7
Mon	Oct-22	Making Capital Investment Decisions	
Wed	Oct-24	Part II Recap	
<b>Test #2 - 6-7:30pm OR 7:45-9:15pm (Buckman 108)</b>			
<b>PART III: Risk/Return &amp; CAPM</b>			
Fri	Oct-26	Lessons from Capital Market History	Ch. 12
Mon	Oct-29	Lessons from Capital Market History	
Wed	Oct-31	Return, Risk and the SML	Ch. 13
Fri	Nov-2	Return, Risk and the SML	
Mon	Nov-5	Return, Risk and the SML	
Wed	Nov-7	Part III Recap	
Financial Analysis Project: Phase II			
<b>PART IV: Cost of Capital &amp; Capital Structure</b>			
Fri	Nov-9	Cost of Capital	Ch. 14
Mon	Nov-12	Cost of Capital	
Wed	Nov-14	Raising Capital	Ch. 15
Fri	Nov-16	Raising Capital	
Mon	Nov-19	Mergers & Acquisition	Ch. 26
Wed	Nov-21	<b>Thanksgiving Break - No Class</b>	
Fri	Nov-23	<b>Thanksgiving Break - No Class</b>	
Mon	Nov-26	Financial Leverage & Capital Structure Policy	Ch. 16
Wed	Nov-28	Financial Leverage & Capital Structure Policy	
Fri	Nov-30	Financial Leverage & Capital Structure Policy	
Mon	Dec-3	Recap of Part IV	
Wed	Dec-5	TEST - Part III & IV	
Financial Analysis Project: Phase III			

### FINAL EXAM: You may select either of the two times.

Friday, Dec. 7, 1pm

Saturday, Dec. 8, 5:30pm

**Optional Excel Training Sessions:**

Session	Date	Topic
1	TBD	Excel Basics
2	TBD	Valuation

*Note: The Excel Training Sessions are optional. I highly recommend that those interested in pursuing a career in finance attend all sessions.*