

Boston University Questrom School of Business
FE712 Finance 2: Investment choices, discount rates and Valuation,
Spring 2023

Class Schedule: Readings and deliverables are to be completed *before* class. All MFL (My Finance Lab) HW's must be completed before 8 am on Monday.

Wk	Dates	Topic	Reading	Deliverables
1	1/23 1/25	Finance 1 review: CF patterns and PV Bond valuation	6.1-6.2,6.4	Case group requests due 1/25
2	1/30 2/1	Quiz: PV of different CF patterns Markets & the pricing of risk	10.1-10.8	MFL HW1 Diversification data case due 2/1 at start of class.
3	2/6	Efficiently combining risky assets & CAPM	§11.7	MFL HW2
	2/8	Case discussion: State of S. Carolina	HBS case #9201061	Answer posted case questions & be prepared to discuss in class
4	2/13	WACC	Chap 12	MFL HW3
	2/15	Case discussion: Cost of capital at Ameritrade	HBS case #9201046	Answer posted case questions be prepared to discuss in class
5	2/21 (Tues) 2/22	Free cash flow review & valuation Case discussion: Radio One	HBS case #9201025	MFL HW4 Answer posted case questions & be prepared to discuss in class
6	2/27	Course review		American Greetings case group write-up due
	3/1	Final Exam		

Classtimes: MW 8 am (B1), 9:30 (C1), 12:30 (A1)
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Course Description: The purpose of this course is to develop the financial skills and logical thought processes necessary to make and implement business decisions. This course builds on material learned in FE 711, in particular time value of money, free cash flow (FCF), and techniques used to evaluate project investments. In this class we will cover the basics of bonds (with bond valuation used as a further Finance 1 review), the relation between expected return and risk, and the cost of capital for valuing projects and firms. You will then be expected to perform valuations that integrate the material learned in both 711 and 712. This course will include some review of present value calculations and FCF, but students will be expected to be familiar with these at the start of the course. Students are expected to be actively involved in learning. While I will present a lot of institutional information and financial jargon, the emphasis will be on the attainment of skills.

Prerequisites: FE711. Facility with Excel, understanding of basic accounting, ability to perform time value of money calculations using Excel.

Learning Goals:

By the end of this course you should have obtained the skills needed to value a project that you may be considering in your business, or to value the entire business. You should also have learned skills that will be of use for your own personal financial decisions. In particular, you should

- Be able to apply discounted cash flow methodology to value potential investments.
- Be able to determine cash flows from financial statements.
- Understand, determine and make use of rates of return. Calculate the cost of capital using the Capital Asset Pricing Model and other methodologies.
- Be able to use spreadsheets to solve financial problems.

These goals contribute towards the MBA learning goals of enabling students to develop an understanding of core knowledge of finance, and by helping students to successfully apply critical and analytical thinking.

Course Pedagogy:

The course will include a mix of:

- Lectures that are structured mostly around questions in which students are expected to participate.
- Case studies, with active student participation.
- Practical problems solved in Excel
- Discussion of current events

Course Materials:

1. **Lecture notes.** Available at the course website on Blackboard. You should check this website on a regular basis.
2. **MyFinanceLab.** Make sure to sign up for: **FE712 Spring 2023**
MyFinanceLab is required so that you can complete the MFL homeworks. Included in this is the e-text: Corporate Finance by Berk and DeMarzo. Instructions for signing up are posted on Blackboard. You should not have to pay for this again, as your initial purchase for Finance 1 should still give you availability.
3. **Cases:** Harvard Business School case packet, includes 4 cases for \$17. Make sure you buy the packet for FE712Spring2023, available at:
<https://hbsp.harvard.edu/import/1017952>
4. A laptop with **Excel**.
5. Blackboard contains a forum for online discussion of class-related topics. Students are encouraged to use this forum for all questions where the answer would be of general interest to the class. Your first port of call when you have a questions should be this forum to find if the question has already been answered. Students are also encouraged to answer each others' questions on the forum. Class participation points will be awarded to forum participants.
6. *Optional:* Financial calculator, such as Texas Instruments BA II Plus.
7. *Optional:* A subscription to the Wall Street Journal, Barron's, or the Financial Times.

Grading:

MFL Homework 20% (4 x 5%)

Quiz 6%

Diversification data case 10%

Case group work 15%.

Class participation 14%

Final Exam 35%

MyFinanceLab (MFL) Homework:

Each must be completed in MyFinanceLab (MFL) by 8 am Monday. These are to be done individually, but you may seek help. For each HW you may make 3 attempts. You also have unlimited time.

Quiz:

This will be a 40 minute quiz to test your ability to do time value of money calculations. The quiz may also include a basic bond calculation. It will not be online. You will be able to use excel to answer the questions, but the answers will be written on paper and graded by humans.

Data case (spreadsheet assignment):

This is individual work. While it is based on an assignment given in the text, the specific directions for your assignment are posted at the course website.

Case group work:

Each student will be a member of a case group, with the following requirements. Groups will have between 3 and 5 members. All members must be in the same section. Your group will do two assignments, as described below. If you wish to form your own group you must submit this to your assigned TA by 5 pm on January 25. (The TA for each section will be posted on Blackboard.) At that time the TA's will put together the case groups. If your name appears in more than one group, the TA's will decide your group. If your requested group has too few members, the TA's will attempt to keep you together and add student(s) to your group.

Group brief write-up for class discussion: (5pts)

Due by 4 pm *the day before* the case is being discussed – Tuesday for the first two cases and Monday for Radio One. I need time to read these before class, so ***late submissions are not accepted.*** Each group will be assigned (by me) one of the three cases for which you are required to submit a brief write-up. This write-up should include at most one page of text, but may include a second page with exhibits. You are not expected to present a full thorough solution to the case in this brief write-up; the case assignment will state what is expected for the brief write-up. All group members should be prepared to be called on in class to discuss your submission. I will do cold calling of group members who do not volunteer.

Group Final Case write-up: (10pts)

This is an in-depth write-up/solution of the case. The final case of the course is similar, in terms of analysis and skills required, to the third case. Detailed instructions will be given at the course website.

Participation and Attendance:

Class attendance is required. I understand that COVID is still in our lives and things happen over the course of the semester. You are expected to attend all classes unless you are ill or observing a religious holiday. Communication is the key to building community in our classroom; just let me know if you have an obstacle to attendance or timeliness, and we will work on it together. If you must arrive late, please go quickly to an outside seat so as not to disturb the class.

Always bring your name card and have it set up so that I and other students can read it. *A name card is a requirement for participation credit.* I will call on students to answer questions, both in lectures and when discussing cases. It is particularly important that you prepare a case analysis prior to class on the days in which we are discussing cases. Participation credit does not require that you give a “correct” answer. Many questions that I ask are challenging, and I want you to feel comfortable that my class is the place to stumble. What I require is that you give an answer that is thoughtful and indicates that you have prepared for class.

Final exam:

The final exam will be open-book. I.e., you may use whatever material you have on your computer or in your notes. Internet use, apart from Zoom for remote testing, is not permitted. Searching the internet for answers or communicating with others during the exam is not permitted and considered a violation of the Academic Conduct Code.

How to do well in this class:

- ***Before every class*** review the lecture notes from the previous class. Make sure that you can solve the problems that we solved in the previous class. Glance at the new lecture notes.
- ***Bring to class: the lecture notes (for that class and the one before), your laptop with Excel, your name card.*** A calculator is optional.
- ***AFTER EACH LECTURE GO OVER THE LECTURE NOTES and EXCEL EXERCISES done in class. Make sure that you are able to reproduce every calculation that we did in class.***
- ***DO ALL OF THE ASSIGNMENTS.*** This includes the MFL homework, quizzes, data cases, HBS cases, and any recommended practice problems. The benefit to you is in the process of doing the work. I strongly recommend trying problems before looking at the answers. For those of you who are athletes or performers you can think of the difference between preparing for competition or performance (the exams) by watching someone else perform, or by doing the exercises yourself.

Academic integrity: My goal is to create a community where you will feel invested and included. The importance of honesty and integrity in this learning community cannot be overemphasized: there must be trust in order to learn. Every member of the Boston University Questrom School of Business is responsible for creating an ethical environment; I will do my best every day to create that in our class, but it can't happen without your commitment too. I also expect you to abide by the Academic Conduct Code. It is easy to do: follow all assignment and exam rules. If you have a question about the rules of an assignment, (can I collaborate on this assignment? Can I use my phone to check the time during an exam?) ask me – it's my job to help you with this.

Any student caught cheating or submitting work that is not their own may receive a grade penalty up to and including a failing grade for the course, and potentially a sanction up to suspension or expulsion.

Students who do not take academic integrity seriously damage the reputation of the Program from which you will graduate. Don't be that student. Please see BU's Academic Integrity website for more information. And always remember: if you have questions or concerns about an assignment, deadline, reading, exam, anything, just email me.

Diversity and inclusion: In developing the materials and assignments for this course, I have aimed to be thoughtful about how identity, culture and learning styles impact the course content. I intend students from all diverse backgrounds and perspectives be well-served by this course and that the diversity that students bring to this class be viewed as a strength and a benefit.

During the semester we will discuss content that will inspire debate, different opinions, and shared experiences. Learning can only happen in a community that is respectful and inclusive; we all belong in this community, and we will value each other's experiences. All members of the class will conduct themselves in a professional manner. Remember, you can disagree with the idea and still respect the person.

I invite you to share your personal experiences and perspective related to the course content; we can learn from each other. Your suggestions on how to make this class and our classroom more inclusive are encouraged and appreciated. If there are topics or conversations that you feel would benefit from incorporation of social context, a differing perspective, or Questrom's Office of Diversity & Inclusion, please inform me and I will explore resources and opportunities for us to engage a wide variety of perspectives in our classroom.

Accommodations for students with special needs: In keeping with University policy, any student with a disability who needs academic accommodations should call the Office of Disability Services at 353-3658, or visit 19 Deerfield Street to arrange a confidential appointment with a Disability Services staff member. Accommodation letters must be delivered to me in a timely fashion (within two weeks of the date on the letter and not later than two weeks before any major examination). Please note that accommodations cannot be provided without an official letter of accommodation.

Mental Health and Wellness: Life in a graduate program can get complicated and it is easy to feel overwhelmed, lost, anxious, or depressed. If you find yourself struggling with your mental or physical health this semester, please feel free to approach me. I will try to be flexible and accommodating, within reason. But I am not a professional and there is no shame in getting help. Help for managing stress and your mental wellbeing can be found at Student Health Services, and Behavioral Medicine. There you can find short term therapy, groups, and workshops, 24/7 on-call service (617 353-3569), referrals, and more resources. If you are feeling stressed and having trouble making choices around alcohol consumption the Collegiate Recovery Program may offer help.

Financial Insecurity: We learn as whole people. It can be challenging to do your best in school when you are worried about meeting basic needs like safe shelter, sleep, and nutrition. If financial insecurity is an obstacle to learning, I urge you to contact Terrier Meal Share, Boston University Financial Assistance, or the Dean of Students Office.

Sexual misconduct/ Title IX policy: The Questrom School of Business is committed to fostering a safe learning environment for all members of the its community and preventing sexual misconduct. All forms of sexual misconduct, including rape, acquaintance rape, sexual assault, domestic and dating violence, stalking, and sexual harassment are violations of Boston University's policies, whether they happen on campus or off campus. Title IX of the Education Amendments of 1972 is a federal civil rights law that prohibits sex-based discrimination in federally funded education programs and activities. This law makes it clear that violence and harassment based on sex and gender is a Civil Rights offense subject to the same kinds of accountability and the same kinds of support applied to offenses against other protected categories such as race, national origin, etc. If you or someone you know has been harassed or assaulted, you can find the appropriate resources at <http://www.bu.edu/safety/sexual-misconduct/>.