**SPEA V361 – Financial Management**

V361 remains a crucial component of the SPEA curriculum for almost every major, serving as a cornerstone for foundational knowledge in financial management. Notably, it stands out as the sole financial management course within the curriculum that delves into the private sector, commonly known as "business." Considering that SPEA's Career Development office indicates that over 80% of graduates ultimately pursue careers in the private sector, this course holds immense significance. Additionally, it imparts a fundamental comprehension of the financial markets that a majority of citizens engage with. Many students have attested to its substantial contribution to their grasp of personal financial management.

***Course Objectives / Core Competencies***

This course explores the fundamental principles of financial management and their practical application to managerial decisions regarding short- and long-term financing. The theoretical framework establishes connections between business financial choices and the valuation of securities in capital markets. The primary objective for private firms is to maximize the market value of their equity securities, specifically common stock. Achieving this goal involves a systematic approach to the firm's investment strategies, capital structure, and dividend decisions.

The course delves into the relationship between corporate financial choices and capital market prices within conceptually realistic conditions, considering situations where outcomes are uncertain, and there are limitations to investor information. Topics covered encompass financial statement analysis, the time value of money, concepts and techniques of capital budgeting, securities valuation, cost of capital, optimal capital structure, risk and uncertainty, as well as investment strategy and portfolio management.

Finance administrators in government and nonprofit sectors are increasingly engaging with private capital markets when overseeing both short- and long-term investments of public funds, which include but are not limited to cash balances. They also play a role in managing public employee pension systems and arranging governmental debt for capital projects. Given these evolving dynamics, the content covered in this course should be considered essential knowledge for mid- to senior-level career professionals in public finance administration.

# Grading

*Grading scale:*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Grade | Percent | Grade | Percent | Grade | Percent | Grade | Percent |
| A+ | Instructor discretion | B+ | 87% | C+ | 77% | D+ | 67% |
| A | 93% | B | 83% | C | 73% | D | 63% |
| A- | 90% | B- | 80% | C- | 70% | D- | 60% |

*Grading weight (tentative):*

|  |  |
| --- | --- |
| **Assignment** | **Weight** |
| Class Participation | 10% |
| Reading Quizzes | 10% |
| Assignments (4 throughout the semester) | 40% |
| Exams (2 throughout the semester) | 40% |

*Attendance, Class Participation, and Class Preparation:***Attendance and active participation in class is expected whenever possible.** The ability to engage and participate is the biggest value added to in-person classes. **However, If you have a positive COVID-19 test or have COVID-like symptoms, please do not come to class.** If you miss class due to illness or for another reason, please touch base with a classmate for class notes. As described below, the slides on their own are an incomplete record of class material, and not all sessions will have slides.

***Class Participation Grading:*** Active engagement and participation in class is crucial to learning. It also makes the class more interesting. Our class sessions will be a mixture of "lecture" material and both small and large group discussions. To this end, you will be held accountable for class participation (keeping in mind that there may be times during the semester you are unable to attend class). During many classes, you will respond to a prompt in Canvas related to activities we are doing in class. While the assignment will be submitted through Canvas, you will not know the question unless you are present in class. The assignment will then be closed to any additional submission at the end of class. In other words, these assignments cannot be made up if you are not in class. **That being said, you may miss up to three of these assignments with no penalty, no questions asked. You are both strongly encouraged to save these free points for when you are actually unable to come to class due to illness and strongly encouraged to make use of these free points when you are, in fact, ill.**

**Class Preparation: Readings Quizzes:** Many weeks will include an article describing an aspect of Financial Management or presenting an example of a Financial Management. These will be followed by a short readings quiz on Canvas that must be completed prior to class that week. We will usually discuss how these readings relate to class concepts, so having read them in advance is important to class preparation.

***Missing Exams Due to Illness:***We will have two exams this semester. If you must miss an exam due to illness, you will be required to submit a form to me that attests that you have a medical-related reason for missing the exam and attest that you know submitting false information to a faculty member is academic misconduct.

*Types of assignments:*

Students will acquire knowledge and skills in this course and mastery will be assessed through a variety of methods. Some assessments will be made in a “take-home” environment, with open notes and minimal time constraints. These assessments (homework and/or online quizzes) will include skills that are not necessarily practical to assess in an exam environment – such as Excel exercises or some of the more lengthy finance problems. They will certainly contribute to a student’s preparation for exams, but they will not be mere duplicates of exam questions. Other assessments will be made in an in-class exam environment, closed-book with minimal notes in a relatively short timeframe. Exams will focus on concepts and shorter finance problems.

*Exams (midterm and final):*

* Calculators
  + No text-enabled devices are allowed on exams (e.g., no wireless communication devices, graphing calculators, etc.)
  + Regardless of the type of calculator allowed, instructors will ensure that students are assessed on their ability to demonstrate proficiency in the mathematical theory and formulas related to course concepts
* Keys formulas will be provided with exams. No other notes will be allowed.

# Pre-requisite course

Students must have successfully completed an introductory accounting course (A201 or V246). Instructors will need to ensure the prerequisite has been satisfied because the One registration system has not reliably been able to monitor or enforce this prior to registration in V361.

# Textbook

Fundamentals of Corporate Finance, 13th edition

Authors: Ross Westerfield Jordan

The 13th edition of this text is the most recent. There are no significant changes to the text from the previous three editions with the exception of minor sections on tax reform. Therefore, instructors have the option of using either the 10th ,11th ,12th, or 13th edition in their course, with the provision that they will add relevant tax update information in lecture and/or class notes. The older editions will have a lower cost to students.

Content coverage:

Chapters 1-9: All

Chapter 10: Sections 1-4

Chapter 11: Sections 1-2

Chapter 12: Sections 1-3

Chapter 13: Sections 1-2

Chapter 14: Sections 1-4

Instructors may select a different textbook. The most important goal is to ensure consistency among sections of the course in learning objectives.

Below are the learning objectives, as aligned with the McGraw-Hill textbook.

# Learning Objectives by Major Section (Chapter)

## Introduction to Corporate Finance (Chapter 1)

* Explain the basic types of financial management decisions and the role of the financial manager
* Explain the financial implications of the different forms of business organization
* Explain the goal of financial management
* Explain the conflicts of interest that can arise between owners and managers
* Explain the various types of financial markets

## Financial Statements, Taxes, and Cash Flow (Chapter 2)

* Explain the difference between book value and market value
* Explain the difference between accounting income and cash flow
* Be able to compute and explain the difference between average and marginal tax rates
* Demonstrate how to determine a firm’s cash flow from its financial statements

## Working with Financial Statements (Chapter 3)

* Explain sources and uses of cash and the Statement of Cash Flows
* Know how to standardize financial statements for comparison purposes
* Know how to compute and interpret important financial ratios
* Be able to compute and interpret the DuPont Identity
* Explain the problems and pitfalls in financial statement analysis

## Long-Term Financial Planning and Growth (Chapter 4)

* Explain the financial planning process and how decisions are interrelated
* Be able to develop a financial plan using the percentage of sales approach
* Explain the four major decision areas involved in long-term financial planning
* Explain how capital structure policy and dividend policy affect a firm’s ability to grow

## Introduction to Valuation: The Time Value of Money (Chapter 5)

* Be able to compute the future value of an investment made today
* Be able to compute the present value of cash to be received at some future date
* Be able to compute the return on an investment
* Be able to compute the number of periods that equates a present value and a future value given an interest rate
* Be able to use the financial functions in Microsoft Excel to solve time value of money problems

## Discounted Cash Flow Valuation (Chapter 6)

* Be able to compute the future value of multiple cash flows
* Be able to compute the present value of multiple cash flows
* Be able to compute loan payments
* Be able to find the interest rate on a loan
* Explain how interest rates are quoted
* Explain how loans are amortized or paid off

## Interest Rates and Bond Valuation (Chapter 7)

* Know the important bond features and bond types
* Explain bond values and why they fluctuate
* Explain bond ratings and what they mean
* Explain the impact of inflation on interest rates
* Explain the term structure of interest rates and the determinants of bond yields
* Be able to use the bond functions in Microsoft Excel to solve for bond prices and yields

## Stock Valuation (Chapter 8)

* Explain how stock prices depend on future dividends and dividend growth
* Be able to compute stock prices using the dividend growth model
* Explain how corporate directors are elected
* Explain how stock markets work
* Explain how stock prices are quoted

## Net Present Value and Other Investment Criteria (Chapter 9)

* Be able to compute payback and discounted payback and explain their shortcomings
* Explain accounting rates of return and their shortcomings
* Be able to compute the internal rate of return and explain its strengths and weaknesses
* Be able to compute the net present value and explain why it is the best decision criterion

## Making Capital Investment Decisions (Chapter 10 – sections 10.1-10.4)

* Explain how to determine the relevant cash flows for various types of proposed investments
* Be able to compute depreciation expense for tax purposes

## Project Analysis and Evaluation (Chapter 11 – sections 11.1-11.2)

* Explain forecasting risk and sources of value
* Explain and be able to perform scenario and sensitivity analyses

## Lessons from Capital Market History (Chapter 12 – sections 12.1-12.3)

* Know how to calculate the return on an investment
* Describe the historical returns on various types of investments
* Explain the historical risks on various types of investments

## Return, Risk, and the Security Market Line (Chapter 13 – sections 13.1-13.5)

* Demonstrate how to calculate expected returns for an individual stock and for a portfolio
* Explain the impact of diversification

## Cost of Capital (Chapter 14 – sections 14.1-14.4)

* Demonstrate how to determine a firm’s cost of equity capital
* Demonstrate how to determine a firm’s cost of debt
* Demonstrate how to determine a firm’s overall cost of capital