



BUAD 306: Business Finance

Syllabus - Summer 2019

Section 14781R: Tue, Thu 9:00-11:30am, JFF 316

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Office Hours: TBD

Course Description

BUAD 306 is a fundamentals course in business finance. Finance is a way of thinking about economic problems that involve uncertainty over time. This course is designed to provide an introductory framework for understanding how financiers think, how they break down components of a financial problem, and how they make decisions as investors and corporations in the financial market. By the end of the semester, you should be familiar with financial vocabulary, understand aspects of financial theory, develop skills in financial computation, and appreciate the underlying financial mindset as well as incentives involved when solving problems of finance. You will learn how to determine risk, how to make decisions, and how to value an investment as a potential financial opportunity.

Prerequisites

1 from (ACCT 410 or BUAD 280 or BUAD 285a or BUAD 286b or BUAD 305) and
1 from (ECON 251 or ECON 351)

Required Materials

- *Fundamentals for Corporate Finance (twelfth edition)*, by Ross, Westerfield and Jordan
- Calculator with financial functions. You should bring your calculator to all classes and exams. You will be extremely disadvantaged if you do not have your calculator during exams. Calculators in cellphones or computers are not allowed during exams.

Course Learning Objectives

Through lecture, case analysis, worked samples, and by learning to apply appropriate mathematical and financial formulas and functions, upon successful completion of this course, you will be able to:

1. Describe basic types, goals, and implications of financial management and the role of the financial decision-maker.
2. Interpret financial statements and how they influence long-term planning and growth.
3. Explain the meaning of time value of money and how to evaluate the tradeoff between dollars today and dollars sometime in the future.
4. Describe how firms decide to commit capital and its impact on cash flow (discounted cash flow).
5. Explain the relationship between interest rates and bonds.
6. Explain the different criteria used to evaluate proposed investments (e.g., net present value (NPV), profitability index, payback period).
7. Determine the cost of capital, and understand and apply the concepts of the weighted cost of capital (WACC).
8. Recognize and understand the elements of optimal capital structure, and the effects of financial leverage, bankruptcy, and the role of taxes on optimal capital structure.
9. Describe the dynamics of behavioral finance and its influence on individual and corporate financial decision-making (e.g., the impact of heuristics).
10. Explain the value of derivatives, or options, in the context of corporate finance.

Grading Summary

Participation:	10%
Exam 1:	30%
Exam 2:	30%
Exam 3:	30%

Your grade depends on both your raw score and your place relative to others in class. The historical average of this class is about a (B). Three items are considered when assigning final grades:

1. Your average weighted score as a percentage of the available points for all assignments.

2. The overall average percentage score within the class.
3. Your ranking among all students in the class.

Assignment and Grading Detail

Your grade is made up of the following categories:

1. Exams

All exams are closed book, closed notes. Financial calculators are allowed and recommended, but E-devices (cell phones, PDAs, i-Phones, Blackberries, other texting devices, laptops, i-pads, etc.) are not allowed. You will be provided with any relevant equations (and some irrelevant ones). All exams will use the Scantron multiple choice format. Students must provide their own pencils. Students must take the exam in the lecture section in which they are registered.

Any re-grade requests must be submitted to me in writing within one school week of the distribution of correct answers. Any re-grading will encompass the entire exam.

Exam Absence Policy

Students are required to be present for midterm exams and the final exam. If you are not able to take the exams on the dates and times specified in the detailed schedule, you should not take this class.

There will be no make-up exams. However, there are legitimate reasons for missing an exam. If you provide documentation of serious medical problems or crime incidents for missing a midterm exam, the other exam scores will be re-weighted to accommodate the missing score. However, if you miss more than one exam, I will be unable to assign a complete grade to you.

2. Assignments

There will be 8 assignments posted to Blackboard during the course. They will not be graded. They are designed to provide practice material during the course. Answers to the homework will be posted online for students to evaluate their performance.

Technology Policy

Personal computers and wireless Internet are a key part of today's technological culture, but they also can distract you from the class discussion and dampen participation. You may bring your laptops/iPads etc. to class for note-taking, but please refrain from browsing the internet, updating your Facebook profile, playing games, instant messaging, shopping, etc. Although you may think you are being discreet, 90% of the time students engaging in such behavior give themselves away (through inappropriate facial expressions, lack of eye contact, out of sync typing, etc.). Use of computer in the classroom is a privilege. If you abuse this privilege, laptops may be banned from the classroom.

MARSHALL GUIDELINES

Add/Drop Process

This class will remain open enrollment (R-clearance) for the first three weeks of the semester. If there is an open seat, students will be freely able to add a class using Web Registration throughout the first three weeks of the term. If the class is full, students will need to continue checking Web Registration to see if a seat becomes available. There are no wait lists and the professor cannot add students. See USC guidelines here:

<https://catalogue.usc.edu/academic/>

- Waitlist. There are no centralized wait lists for Marshall undergraduate courses. Although there are no wait lists, the Undergraduate Advising Office provides a system by which students can indicate their interest in enrolling in classes that are currently full in order to track demand and manage classroom space effectively.
- Dropping Students. The professor may drop any student who, without prior consent, does not attend the first two class sessions. The instructor is not required to notify the student that he or she is being dropped.

Statement for Students with Disabilities

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP

is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. For more information visit: www.usc.edu/disability.

Statement on Academic Integrity

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. <http://www.usc.edu/dept/publications/SCAMPUS/gov/>

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/> Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

Incomplete Grades

Incomplete (IN) grade may be assigned due to an "emergency" that occurs after the 12th week of classes. An "emergency" is defined as a serious documented illness, or a documented unforeseen situation that is beyond the student's control, that prevents a student from completing the semester. Prior to the 12th week, the student still has the option of dropping the class. Arrangements for completing an IN course should be initiated by the student, and negotiated with the instructor. Class work to complete the course should be completed within one calendar year from the date the IN was assigned. The IN mark will be converted to an F grade should the course not be completed.

Course Schedule

Date	Session Info	Topic	Reading
5/16/2019	Session 1	Introduction to Corporate Finance: What does a financial manager do? Forms of business organization, Goal of financial management, agency problem, Principle-agent problem, incentives	1
5/21/2019	Session 2	Financial Statements: Balance sheet, Income statement, Average versus marginal tax rates, Operating Cash Flow, Change in Net Working Capital, Standardized Financial Statements, Sources and Uses of Cash, Ratio Analysis	2 & 3
5/23/2019	Session 3	Time Value of Money: Future Value and Compounding, investing for a single period, compound growth, lump sum versus payments, Present Value and discounting, present versus future value, determining the discount rate, single period present value, lump sum versus payments	5
5/28/2019	Session 4	Discounted Cash Flow Valuation: Future and present values of multiple cash flows, Valuation of Annuities, Perpetual Bonds, Future value of Annuities, Annuities Due	6
5/30/2019	Session 5	Discounted Cash Flow Valuation: Effective annual rates, Calculating and comparing rates, EAR versus APR, Continuous Compounding, Loan Types, Amortization, Pure Discount Loans, Interest Only loans, Amortized Loans	6
6/4/2019	Session 6	Exam 1	
6/6/2019	Session 7	Interest Rates and Bond Valuation: Bond Ratings, Moody's and Standard and Poors, Investment Grade versus High Yield (Junk) Debt, Real versus nominal rates, Fisher Effect, Term Structure of Interest Rates - Yield Curve	7

6/11/2019	Session 8	Stock Valuation: Zero Growth, Constant Growth Model, Shareholder Rights, Common Stock versus Preferred Stock, Cumu- lative versus non-cumulative, Dealers and Brokers, NYSE, NASDAQ	8
6/13/2019	Session 9	Net Present Value and Other Invest- ment Criteria: NPV estimate, Payback Rule, Internal Rate of Return, Discounted Payback, Profitability Index, Capital Budgeting criteria	9
6/18/2019	Session 10	Net Present Value and Other Invest- ment Criteria: IRR versus NPV, Mutually Exclusive Projects, Nonconventional cash flows, NPV profile, Acceptance and rejection rules for each capital budg- eting criteria	9
6/20/2019	Session 11	Making Capital Investment Deci- sions: Incremental Cash Flows, Pro Forma Statements, Side Effects, Sunk Costs, Opportunity Costs, Net Working Capital, Financing Costs	10
6/25/2019	Session 12	Capital Market History: Returns thru time for different asset classes, Historical record, Risk premi- ums, variability of returns, average versus geometric, capital market effi- ciency	12
6/27/2019	Session 13	Exam 2	
7/2/2019	Session 14	Return, Risk, and Security Market Line Expected Returns and variances, portfolio weights and expected re- turns, unexpected returns, Systematic and unsystematic risk, diversification	13
7/4/2019	No Class		
7/9/2019	Session 15	Return, Risk, and Security Market Line Systematic risk and beta, Portfo- lio beta, Security Market Line, Re- ward to risk ratio, Beta and the risk	13

premium, Capital Asset Pricing Model (CAPM), Cost of Capital

7/11/2019	Session 16	Cost of Capital: Cost of Capital, Cost of Equity, Cost of Debt, Cost of Preferred Stock	14
7/16/2019	Session 17	Financial Leverage and Capital Structure Policy: Capital Structure Question - Debt or Equity Financing? Effect of Financial leverage, Cost of equity or debt? M&M proposition I&II	16
7/18/2019	Session 18	Financial Leverage and Capital Structure Policy: M&M proposition I and II with and without corporate taxes, Bankruptcy costs, Optimal capital structure, Bankruptcy liquidation versus reorganization	16
7/23/2019	Session 19	Dividends and Payout Policy: Cash dividends, stock dividends, low payouts versus high payout ratios, tax and legal benefits, dividend policy, stock repurchase plans, stock splits, reverse splits	17
7/25/2019	Session 20	Review	
7/30/2019	Session 21	Exam 3	