MBAS 821 Financial Fundamentals

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Office: Goodes Hall Room 434 (Not in use due to COVID-19)

**Course Description**

This finance course is the only required finance course in the GDB program. Over the following weeks we aim to provide students with a solid background in financial decision-making. Students will acquire practical skills (excel or fundamental analysis) and an understanding of modern finance. Students will develop both analytical and industry-relevant skills. To meet these goals, we borrow from a body of financial theory that is central to the understanding of the issues in finance. Additionally, we employ set a tools and techniques that are widely considered to be fundamental and universally employed to this day. This course should not be considered to be a last stop, rather it should help to form the basis of understanding decision making from a financial perspective.

**Course Objectives**

This course provides you with a framework to analyze individual and corporate investment and financing decisions. We will introduce the concepts of the *time value of money* and *risk* that are the foundation for all financial decisions. We will then apply these concepts to the valuation of individual securities, such as stocks and bonds, and to capital investments undertaken by corporations.

Through this framework, we will gain an understanding of financial markets and the process by which companies make their investment decisions.

**Course Materials**

**Text**

Corporate Finance, 4th Edition, Berk, DeMarzo and Strangeland

**Other recommended material**

Subscription to the Wall Street Journal and/or the Financial Times. Some other excellent financial magazines such as The Economist and Business Week also provide good applications of what you will learn in the class.

**Course Website**

The [course website](https://queens-mbas821.netlify.app/) provides valuable information related to the course. On the website you will find:

* Lecture slides
* Smith Living Cases
* Additional material from academic journals, financial press, as may arise in class

**Evaluation**

Assignments: 10% (5% each)

Case Reports: 30% (10% each)

Case Presentation: 15%

Class Participation: 5%

Final Exam: 40%

**Class Structure**

Each class will consist of an introduction and overview of the topic, followed by a breakout activity which will consist of the students forming groups to answer a question or develop a discussion of an application of the topic. Following the breakout, the class will proceed into the specific applications and technical applications of the topic that was introduced.

Each class will have an assignment or case associated with it. We will either have a case OR an assignment on a given class. Cases will be presented by groups on case days. Even if you are not presenting, you are expected to have read these prior and to have (hopefully) thought about them and taken some notes. Each case has questions associated with them that you will be required to answer as part of your evaluation.

**Group Policy**

You are required to deal with group dynamics within the group. You are required to remain with your group throughout the course. Working in a team is an important part of life. Good groups are based on skill-sets; no group needs 5 project managers or 5 programmers. Find people’s complementary skills to help create a good dynamic that maximizes productivity for each project. The idea is to excel and not to simply **fit in**.

**Assignments**

The assignments are designed to reinforce what we have covered in the lecture and to get you thinking about financial decision making in a real-world setting. These assignments are individual pieces of evaluation, as a result, each student will need to submit their own work.

There will be two assignments: Due on August 11th and 21st, both at 11:59pm through course portal.

**Cases**

Cases will be given at 3 intervals this semester. Cases consists of answering the questions associated with the cases and applying skills that you have learned in the course to the case questions. In addition, students will be required to present these cases to the class. These presentations should focus on resolving the issue described in the case using financial analysis and financially backed reasoning. These cases and question submissions are group work. Details on how groups function are found in the section “Group Policy”. Case questions are due after the weekend of the presentations.

**E-mail Policy**

I am usually quick to respond to e-mails, however I am not always available for all types of questions. Essentially, if your question involves the structure of the course, curiosities about specific deadlines or marking should be handled by the TAs. You can reach them at their e-mails listed below.

A good reason to e-mail me would be when you have read the material associated with a lecture, attended the lecture, asked classmates, reviewed the material, and you still do not understand something about the course. If this is the case, I would be happy to help you work through any issues.

Teaching Assistant Emails: [Eric Dong](mailto:undefined%20[eric.dong@queensu.ca]) & [Neal Willcott](mailto:neal.willcott@queensu.ca) – they’re good guys. Help me, I am being held hostage by my TAs!

**Academic Integrity**

Queen’s students, faculty, administrators, and staff all have responsibilities for supporting and upholding the fundamental values of academic integrity. Academic integrity is constituted by the five core fundamental values of honesty, trust, fairness, respect, and responsibility, and by the quality of courage (see www.academicintegrity.org). These values and qualities are central to the building, nurturing, and sustaining of an academic community in which all members of the community will thrive. Adherence to the values expressed through academic integrity forms a foundation for the “freedom of inquiry and exchange of ideas” essential to the intellectual life of the University.

Students are responsible for familiarizing themselves with, and adhering to, the regulations concerning academic integrity. General information on academic integrity is available at Academic Integrity @ Queen’s University; an overview of Smith’s own policies and procedures are also important to review. You may also find these frequently asked questions on academic integrity helpful for your understanding of the concept and the regulations surrounding it. Departures from academic integrity include, but are not limited to, plagiarism, use of unauthorized materials, facilitation, forgery, and falsification. Actions which contravene the academic integrity regulations carry sanctions that can range from a warning, to loss of grades on an assignment, to failure of a course, to requirement to withdraw from the university.

**Class Schedule**

**Topic 1a Overview**

**Topics covered**: Introduction to corporate finance and capital markets

1. Read: Berk, DeMarzo and Strangeland- Chapter 1

**Topic 1b Time Value of Money**

**Topics covered**: Application of Time Value of Money to growth rates, compound interest rates, annuity and growing annuity, perpetuity and growing perpetuity.

1. Read: Berk, DeMarzo and Strangeland- Chapter 4
2. Assignment 1 (Due on 11th August, 2020)

**Topic 2 Investment Decisions**

**Topics covered**: How do firms value projects and decide whether or not to commit for investments? Investment evaluation measures including NPV, IRR, PP, and PI are discussed in this class.

1. Read: Berk, DeMarzo and Strangeland- Chapter 8
2. Case: Capital Expenditure: Bombardier  
   Case Presentation/Report Submission: August 12, 2020

**Topic 3 Capital Budgeting and Financial Forecasting**

**Topics covered**: Capital budgeting as a procedure for evaluating the acquisition of long-term assets. Capital Budgeting and Taxation. Discussion on why firms make decisions on types of capital acquisition. Taking past financial data along with management’s expectations and objectives and translating them to the future financial position of the company. Financial statement analysis, growth policy, external funds requirements.

1. Read: Berk, DeMarzo and Strangeland- Chapter 9

**Topic 4 Firm and Securities Valuation**

**Topics covered**: The fundamentals of security pricing and the impact on a company’s valuation from a market perspective. DCF( DDM, FCFE, FCFF).

1. Read: Berk, DeMarzo and Strangeland- Chapter 6, 7
2. Going Public (MBA internal case competition version) : Snap Inc.  
   Case Presentation/Report Submission: August 19, 2020

**Topic 5 Risk and Return**

**Topics covered**: Impact of risk on value. Portfolio diversification and risk. CAPM (Capital Market Line, Security Market Line), performance valuation (Sharpe Ratio), solving for efficient sets

1. Read: Berk, DeMarzo and Strangeland- Chapter 10, 11, 22
2. HOOPP What's Next? – After Risk and Return  
   Case Discussion/Presentation: August 24, 2020

**Topic 6 Cost of Capital**

**Topics covered**: Calculations of Weighted-Average cost of capital (WACC), discussion of what impacts cost of capital and how this impacts firm decisions.

1. Read: Berk, DeMarzo and Strangeland- Chapter 14
2. Assignment 2 (Due on 21st August, 2020)

**Disabilities Policy**

Students with physical and learning disabilities must contact the instructor as soon as possible in order for accommodations to be made. Queen’s University is committed to achieving full accessibility for persons with disabilities. Part of this commitment includes arranging academic accommodations for students with disabilities to ensure they have an equitable opportunity to participate in all of their academic activities. If you are a student with a disability and think you may need accommodations, you are strongly encouraged to contact Queen’s Student Accessibility Services (QSAS) and register as early as possible. For more information, including important deadlines, please visit the QSAS website.