

Southern Methodist University
Department of Finance and Business Economics
First Summer Session 2013

Course: Finance 3320 – Financial Management 351 Maguire
Monday – Friday: 10:00am – 11:50am

Instructor: Professor Charles B. (Chip) Ruscher

Office: Crow 370

Office Hours:

	<u>Location</u>	
Mondays:	370 Crow	3pm – 4pm
Tuesdays:	370 Crow	3pm – 4pm
Wednesdays:	370 Crow	4pm – 5pm

Review Sessions:

	<u>Location</u>	<u>Time</u>
Mondays:	250 Maguire	4pm – 5pm
Optional session, which will expand or contract based on demand		

Telephone: (214) 768-3150

Email: cruscher@cox.smu.edu

Texts:

1. Fundamentals of Corporate Finance, Ross, Westerfield, and Jordan, 9th Edition, McGraw-Hill Irwin, 2010
2. FinGame Online 5.0 Simulation, Brooks, 5th Edition, McGraw-Hill Irwin, 2008
3. Lecture Notes (provided on Blackboard)
4. *Wall Street Journal* and *Financial Times* - Access to these daily journals is **suggested**. Articles related to class material will be provided and, time permitting, discussed during class.
5. Recommended calculator is the HP12-C, particularly the Platinum Edition (although the TI BA II Plus is acceptable). These two calculators are singled out because they are the only calculators qualified for taking the Chartered Financial Analyst (CFA) exams. I will use the HP12-C in class.

Prerequisites: Calculus, ECON 1311 and 1312, ACCT 2301, ITOM 2305 or STAT 2301

Coverage: This BBA level core course is designed to familiarize students with the basic tools and concepts of finance, and enable students to pursue additional courses in corporate finance, investments, capital markets, and financial institutions. By studying the decisions that financial managers make, with a focus on the investment and the financing decisions, this course will assist students to:

1. Become familiar with financial statements and the basics of accounting.
2. Analyze corporate performance via ratio (trend and comparative) and cash flow analyses.
3. Understand and grasp the concept of time value of money.
4. Apply the discounted cash flow analysis to value stocks and bonds (and any financial asset).
5. Understand the fundamental principle that a high return is required for bearing high risk.
6. Gain insight into the determinants of market interest rates, the term structure of interest rates, and yield curves.
7. Quantify the weighted average cost of capital (WACC) for individual firms as the basis of financial analysis.
8. Learn the basics of capital budgeting techniques (i.e., NPV, IRR, etc.) required to make corporate investment decisions.

Objectives:	<p>The learning objectives of this course include the following items:</p> <ol style="list-style-type: none"> 1. Grasp the concept of Time Value of Money 2. Apply the discounted cash flow analysis to value stocks and bonds 3. Understand the fundamental principle that a high expected return is required for bearing high risk 4. Quantify the weighted average cost of capital (WACC) for individual firms as the basis of financial analysis 5. Make corporate investment decisions based on the rule of net present value (NPV)
Attendance:	Attendance is required for the satisfactory completion of this course.
Nameplates:	Nameplates are required and will be provided by the professor. You will be required to bring your nameplate to class with you <u>each and every class period including tests.</u> It is the student's responsibility to replace lost nameplates @ the student's expense.
Participation:	Your participation in class discussion/activities is necessary to ensure the success of the learning experience.
Honor Code:	Collaboration on some assignments is necessary and it may be helpful to have study/discussion groups. However, tests and retests must strictly be your own work product. In the opinion of this professor, higher education has no place for those who desecrate the honor code.
Tests/Exams:	No brimmed hats will be worn during tests or retests. It is the students' responsibility to ensure that other students do not copy their answers. Therefore, all students must keep their tests/answer sheets covered. Allowing other students to copy your work is also a violation of the honor

- code. **Further, nameplates must be in place during tests.**
- Extra Credit: Extra credit is for students who have already mastered the material and who are *already receiving an A grade*. If an A student wishes to undertake extra credit work in the area of corporate finance or financial management, the professor would be willing to provide feedback and mentoring to the student.
- Bonus Points: There will be five bonus point FinGame papers during the summer session. Each FinGame bonus point paper will provide students to earn up to one bonus point per paper. Each bonus point will be added to the student's final grade.
- Academic Note: **No Late Assignments will be Accepted! Late Work will Receive a Grade of Zero!!**
- Accommodations: Accommodations for a disability, religious observance and extracurricular activities follow University Policy as described below. Please meet with me at the beginning of the semester to discuss any potential issues.
- Disability Accommodations: Students needing academic accommodations for a disability must first contact Disability Accommodations & Success Strategies (214-768-1470 or visit <http://www.smu.edu/alec/dass.asp>) to begin the process. Once registered, students should then schedule an appointment with the professor to make appropriate arrangements. (See University Policy No. 2.4; an attachment describes the DASS procedures and relocated office).
- Religious Observance: Religiously observant students wishing to be absent on holidays that require missing classes should notify their professors ***in writing at the beginning*** of the semester, and should discuss with them, in advance, acceptable ways of making up any work missed because of the absence. (See University Policy No. 1.9).
- Excused Absences for University Extracurricular Activities: Students participating in an officially sanctioned, scheduled University extracurricular activity should be given the opportunity to make up class assignments or other graded assignments missed as a result of their participation. It is the responsibility of the student to make arrangements with the instructor ***prior*** to any missed scheduled examination or other missed assignment for making up the work. (See University Undergraduate Catalogue).
- Grading Policy: The Department of Finance has defined the following maximum grading policy:
A Top 20%

A- Next Highest 25%

I will assign final grades based roughly on the following distribution:

A Range	45% (A Range defined as an A or A-; see above)
B Range	35% (B Range defined as a B+, B, and B-)
C+ and Below	20%

Students are guaranteed to be in the B Range if total score is at least an 80.
Students are guaranteed to be in the C Range if total score is at least a 70.

Grade Goals: As the objectives at the beginning of this syllabus imply, **my goal** is to provide an environment conducive to the learning process. I am fully aware that many students are concerned with their grades. **Your goal and mine are not mutually exclusive:** *If you invest the time and effort to learn the financial concepts presented in this course, you should receive a grade commensurate with your effort.*

Grade Policy: It is important for you to be aware that **You EARN your grade. I do not GIVE you a grade!!!** I attempt to give students the benefit of the doubt that translates into the highest grade possible on each assignment. Therefore, do not attempt to “bargain” with me for your grade. Such attempts will not provide any benefit, current or future, to students.

Re-Grading Policy: Re-grade requests must be made in writing within three (3) days after the graded exams are distributed back to students. Requests must clearly and specifically state your reasons for objecting to your assigned score on a particular question. Requests that do not meet these guidelines will be discarded. In making your requests, please keep in mind that the whole exam is subject to re-grading.

Appraisal:

Class Discussion 10%

Reading assignments are listed in the attached outline. Students are expected to read these assignments prior to class and be prepared to actively participate in discussions. Students are expected to attend all classes.

FinGame Ranking 10%

Teams of three to five students per team will be formed the first day of class. Teams should submit the names, email addresses, and phone numbers of each team member as well as the student team’s FinGame company’s name on the second day of class. Students failing to form teams will be assigned randomly to teams. Each team will represent a management team in charge of a manufacturing firm. Teams will input quarterly decisions beginning June 5, 2013 and continue according to the schedule on the last pages of the syllabus. FinGame management teams will be ranked and evaluated according to peer FinGame management teams with stock value being the metric used for ranking/evaluation (i.e., maximizing the value of the firm, or

maximizing stockholders' wealth).

FinGame Bonus Point Papers Potential of 1% Extra per Paper

Students will be provided opportunities to obtain bonus points by undertaking optional bonus point FinGame papers. Students elect to undertake these optional papers. Therefore, some members of a FinGame team may make this election while other members of the same team choose not to participate. Each bonus point paper will consist of a one-page paper plus necessary backup material. The one-page bonus point papers include:

Paper #1: Long-Term Strategic Planning

Your FinGame company's long-term prosperity and competitiveness comes from a planned effort to maximize the value of the firm. The negative consequences of poor decisions are likely to be dramatic. Therefore, deliberate and careful strategic planning and preparation is required to assess any given management team's decision.

Paper #2: Financial Statement Analyses and Long-Term Strategic Planning

FinGame management teams will perform financial statement analyses (ratio and cash flow) of the results of capital structure decisions, short-term versus long-term debt financing decisions, and dividend policy decisions.

Paper #3: Beta Coefficient

Each student FinGame team will calculate their FinGame firm's historical (or ex-post) beta coefficient.

Paper #4: Cost of Capital

Using market value of equity and debenture and book value of intermediate bank debt, each student management team will calculate their FinGame firm's weighted average cost of capital.

Paper #5: Capital Budgeting

The FinGame simulation permits two cost savings capital budgeting projects (i.e., Projects A and B). Using Excel, each student team will design a template to analyze each of the two projects to calculate their NPVs.

Tests 80%

There will be two tests. The format of each test may vary. Make-up tests will *not* be given. However, in the event a student provides an excused absence from the University, the College of Business, or the Department of Finance for a test, the student may arrange to take the test early. Solutions for each test will be provided when the tests are returned.

Schedule Outline

		<u>Part 1: Financial Analyses</u>
June	3	Pre-Test
	3	Review Pre-Test
	3	Lecture Topic 1: Introduction, Financial Managers' Primary Goal, and Agency Issues (<i>PowerPoint</i>)
	3	Reading Assignment: Chapter 1: Introduction to Corporate Finance (<i>RWJ</i>)
	3	Select Team Members for FinGame Simulation
	3	OPTIONAL REVIEW SESSION – 4:00pm to 5:00pm
	4	Lecture Topic 2: FinGame Simulation
	4	Reading Assignment: FinGame Online 5.0 Participant's Manual
	4	Due Date: Submit FinGame Team Member Information (written or electronic)
	5	Lecture Topic 3: Financial Statements – Balance Sheets, Income Statements, and Cash Flows (<i>PowerPoint</i>)
	5	Reading Assignment: Chapter 2: Financial Statements, Taxes, and Cash Flow (<i>RWJ</i>)
	5	Reading Assignment: Lecture Notes: 3: Financial Statements – Balance Sheets, Income Statements, and Statements of Cash Flow (<i>Notes</i>)
	5	Due Date: FinGame Quarterly #1 (same for all participants)
	6	Lecture Topic 4: Ratio, Trend, and Comparison Analyses (<i>PowerPoint</i>)
	6	Reading Assignment: Chapter 3: Working With Financial Statements (<i>RWJ</i>)
	6	Reading Assignment: Lecture Notes 4: Financial Statement Analysis – Part 1: Ratio, Trend, and Comparison Analyses (<i>Notes</i>)
	6	Bonus Point Paper #1: Long-Term Strategic Planning
	6	Due Date: FinGame Quarterly #2 Decision (first submitted decision)
	7	Lecture Topic 5: Cash Flow Analysis (<i>PowerPoint</i>)
	7	Reading Assignment: Lecture Notes 5: Financial Statement Analysis – Part 2: Cash Flow Analysis
	7	Discussion: <i>Wall Street Journal</i> and <i>Financial Times</i> Articles
		<u>Part 2: Time Value of Money</u>
	10	Lecture Topic 6: The Basics of Time Value of Money (<i>PowerPoint</i>)
	10	Reading Assignment: Chapter 5: Introduction to Valuation: The Time Value of Money (<i>RWJ</i>)
	10	Bonus Point Paper #2: Financial Statement Analyses and Long-Term Strategic Planning
	10	Due Date: FinGame Quarterly #3 Decision
	10	OPTIONAL REVIEW SESSION – 4:00pm to 5:00pm
	11	Lecture Topic 6: The Basics of Time Value of Money continued... (<i>PowerPoint</i>)
	11	Reading Assignment: Chapter 6: Discounted Cash Flow Valuation (<i>RWJ</i>)
	12	Lecture Topic 7: Time Value Application – Bond Valuation (<i>PowerPoint</i>)
	12	Reading Assignment: Chapter 7: Interest Rates and Bonds Valuation (<i>RWJ</i>)

June

- 12 **Due Date:** FinGame Quarterly #4 Decision
- 13 Lecture Topic 8: Time Value Application – Stock Valuation (*PowerPoint*)
- 13 Reading Assignment: Chapter 8: Stock Valuation (*RWJ*)
- 13 **Due Date:** FinGame Quarterly #5 Decision
- 13 Discussion: *Wall Street Journal* and *Financial Times* Articles

14 **TEST #1**

Part 3: Risk and Return

- 17 Lecture Topic 9: Risk and Return – Lessons from Market History
- 17 Reading Assignment: Lecture Topic 9: Introduction to Risk and Return – Basics of Statistics (Review) (*PowerPoint*)
- 17 Reading Assignment: Chapter 12: Some Lessons from Capital Market History (*RWJ*)
- 17 **Due Date:** FinGame Quarterly #6 Decision
- 17 **OPTIONAL REVIEW SESSION – 4:00pm to 5:00pm**
- 18 Lecture Topic 10: Return and Risk – Asset Pricing Model CAPM (*PowerPoint*)
- 18 Reading Assignment: Chapter 13: Return, Risk, and the Security Market Line (*RWJ*)
- 19 Lecture Topic 11: The Weighted Average Cost of Capital (WACC)
- 19 Reading Assignment: Chapter 14: Cost of Capital (*RWJ*)
- 19 **Bonus Point Paper #3:** Beta Coefficient

Part 4: Capital Budgeting, Value, and Valuation

- 20 Lecture Topic 12: The Basics of Capital Budgeting (*PowerPoint*)
- 20 Reading Assignment: Chapter 9: Net Present Value and Other Investment Criteria (*RWJ*)
- 21 Lecture Topic 13: Capital Budgeting
- 21 Reading Assignment: Chapter 10: Making Capital Investment Decisions (*RWJ*)
- 21 Discussion: *Wall Street Journal* and *Financial Times* Articles
- 24 Lecture Topic 14: Introduction to Value and Valuation – An Overview (*PowerPoint*)
- 24 Reading Assignment: Lecture Notes: Value and Valuation – An Overview (*Notes*)
- 24 **OPTIONAL REVIEW SESSION – 4:00pm to 5:00pm**
- 25 Lecture Topic 15: Value and Valuation – A More In-Depth Review (*PowerPoint*)
- 25 Reading Assignment: Value and Valuation – A More In-Depth Review (*Notes*)
- 25 **Due Date:** FinGame Quarterly #7 Decision
- 25 **Bonus Point Paper #4:** Weighted Average Cost of Capital (WACC)
- 26 Lecture Topic 16: Value and Valuation – Pulling It All Together (*PowerPoint*)
- 26 Reading Assignment: Value and Valuation – Pulling It All Together

June		(Notes)
	26	Discussion: <i>Wall Street Journal</i> and <i>Financial Times</i> Articles
	27	TEST #2
		<u>Part 5: Financial Options, Real Options, and Corporate Finance</u>
	28	Lecture Topic 17: Introduction to Options and Corporate Finance (PowerPoint)
	28	Reading Assignment (Handout): Chapter 14: Options and Corporate Finance (<i>RWJ</i> , 8 th Edition)
July	28	Due Date: FinGame Quarterly #8 Decision
	28	Bonus Point Paper #5: Capital Budgeting (Projects A and B)
	1	Lecture Topic 17: Introduction to Options and Corporate Finance continued... (PowerPoint)
	2	Discussion: FinGame Simulation Performance