



Northeastern University

Corporate Finance Cargill Hall 094, Tuesday (T) and Friday (F) 3:25 PM - 5:05 PM Fall 2022 Syllabus

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Office hours: Tuesday, Thursday, Friday 10:00 AM – 11:00 AM
and by appointment

Zoom office hours: Monday, Wednesday 10:00 am – 11:00 am
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My Gmail address is preferred because your email message will be announced on my phone.

Teaching Assistant : TBA

Please read through the syllabus and the project guidelines by the first day of the semester and make sure you understand the expectations of the class. I strongly encourage you to contact me if you have any question by the end of the second week. I shall make every effort to meet with you in person.

Prerequisites: FINA 2201/2209 or equivalent with a passing grade. It will be better if you took Statistics, Accounting, Economics, and Calculus before taking this class.

Note: There will be overlap with past Finance courses, especially if you have taken more than FINA2201. Given the differing backgrounds of the students in the class – for some this will be their second Finance course and for the others their fourth, this is unavoidable. If you are concerned about this, please talk with the professor soon. I hope to be able to put a helpful ‘spin’ on the material so that even if some parts are ‘reruns’ you will still derive some value from it.

Required Text: Fundamentals of Corporate Finance 13th edition by Ross, Westerfield, Jaffe, Jordan, McGraw Hill.

Please make sure you can access McGraw Hill Connect by 9 September 2022.

To register for Corporate Finance FINA 3301, visit the following website: <https://connect.mheducation.com/class/m-muzere-tf-325-pm---505-pm>

(Course will be available: 7 September 2022 – 7 December 2022).

FINA-3301 has been designated by the University as a “writing” course, meaning that your written assignments will be reviewed for writing skills. Spelling, grammar, sentence structure, clarity, and writing effectiveness, and these skills will be included in the grading of the submissions. As part of the “writing course” designation, any papers may be chosen for review by outside writing specialists. Thus, you are urged to present your best writing skills in all assignments. Proper notation of sources and references is also required.

Suggested Supplementary Reading: Wall Street Journal and/or Business Week It can be accessed from NEU Library. It is NOT mandatory to purchase a financial calculator for this course. An excellent financial calculator is Texas Instruments BAII Plus or Hewlett Packard 17BII. You are responsible to learn by yourself using the calculator. An example of Financial Calculator Tutorial can be found <http://www.youtube.com/watch?v=AtQjNkkOHcY> There are useful NU Library Resources available on <http://subjectguides.lib.neu.edu/business>:

- a. Northeastern University LibGuides - Business Research
- b. S&P Industry Surveys
- c. Value Line Investment Survey
- d. Mergent Online

You also can access the financial market data by using Bloomberg terminals in the Bloomberg Lab (177 Dodge Hall), Library, and Hayden 413

A PROMISE

The goal for this course is to help you deepen your understanding of corporate financial decisions. We will work together to understand the models, techniques, and factors affecting corporate value. Class activities will facilitate how we can apply those theories and models to better understand what drive change in value. In this course, you will:

- * Develop an understanding of financial analysis and company valuation;
- * Explore financial instruments and functions of capital markets;
- * Link the theories of capital asset pricing to determine costs of capital
- * Understand the sources of risks and manage them;
- * Formulate the short- and long-term financial policies;
- * Learn how to manage working capital;
- * Interpret current events for impacts on companies and industries.

The class will emphasize the application of financial theories, analytical tools, and written and oral communication skills. Note that great analysis is not that great if your audience cannot understand what it means or how you reached your conclusions. The assumptions you made and why (i.e. what they are based on) are very important. This is the 'art' of finance – at a certain level the mechanics are assumed to be correct. Just as in the workforce, much of the work in this class will be done in teams (five to seven students).

The course relies heavily on quantitative methods. Concepts such as intrinsic value and risk will be critically analyzed as well. The contents of this course should provide you with the ability to build evaluation models to suit the situations you wish to scrutinize.

Once you successfully complete this class, you would have gained about 30% to 50% of knowledge expected by the Level I Examination for Certified Financial Analyst. The examples and questions will be like the past CFA exam questions.

Technical Supports

Check Canvas website when you have any questions about Canvas system. The class materials will be posted on Canvas system <https://Canvas.northeastern.edu/>

Khyle Hannan, the business librarian of Northeastern University Library, will answer data questions (k.hannan@northeastern.edu, 617-373-2451). How to register for FINA 4320, International financial management, fall 2022.

TEAMWORK: You are wanted!

For the (1) Planning for growth at A&S Air and (2) The MBA Decision, you will work with your team members to prepare a detailed assessment. Each group will be asked to prepare a written report and may present its findings using appropriate PowerPoint materials to the class. In addition, the team will be the home base for exercise problem discussion in class. Your participation is important!

Attendance is mandatory. Absent and tardy students are obligated to what is missed. You are responsible for getting notes from a friend for the missed class. A legitimate excuse refers to illness of an immediate family member WITH appropriate documents. You can count on knowing everything that happens from the notes etc. posted on the Canvas. There is a lot of material to be covered in this course. Therefore, it is important that students attend every class full-time and on time.

Please come to class on time. Tardiness affects your participation and group project grade. You are adults and can make that decision for yourselves. Your team will need you frequently throughout the semester and will consider

your attendance in their feedback scores. There will often be activities we do near the beginning of class that require silence and focus.

The subject matter of this course is quite technical and difficult. It is best to minimize distraction. Be considerate and restrict your use of smart phone, laptop, and any other electronic devices. Let's take our responsibility for creating a positive learning environment by showing respect to the class and yourself. There is a lot of material to be covered in this course. Therefore, it is important that every student attend every class, arriving on time.

Suggestions for Success: Due to the quantitative and analytical nature, you are expected to spend **at least 10 hours** a week to study this course. The instructor welcomes discussion if you have problems. However, I will appreciate it if you

- (1) Check Canvas at least twice a week. The e-mail sending will be minimized unless it is very urgent. Therefore, make sure you access Canvas and download the files/information on a regular basis.
- (2) Please always communicate with the instructor by using your Northeastern University's account.
- (3) Show your etiquette (sometimes called "netiquette") for class/online discussions, email, and other forms of communication, such as appropriate interaction on cyberspace like in a face-to-face learning environment. For more information, please check <http://www.albion.com/netiquette/corerules.html>
- (4) Submit homework, assignments, and tests on time. In business world, "I forget" can be very harmful to your job.
- (5) Be responsible and courteous. Your email should start with my title and last name ahead of your concerns or questions. Please carefully read information (e.g., office hours) given on the syllabus.
- (6) Please note writing e-mail or sending text message can lead to misunderstanding. If you have any significant questions, please communicate me in person.
- (7) It is safe to say that nearly all of us have had unpleasant group work experiences, but I guarantee your team experience in this class will be different. Team-based Learning is a special form of collaborative learning that is different from traditional forms of group work. Your teammates' contributions can only help you, they cannot hurt you.

Request for Accommodations

Students who have registered with the Disability Resource Center for personal accommodation may require special consideration of test time. Please provide documentation from the DRC by the second week of the semester and schedule a meeting with instructor by the second week of the semester. Accommodation of test time will only be considered if the student makes a request at least seven days before the exam. For more information, please check <http://www.northeastern.edu/drc/>

Grades

Course grades will be determined based on four examinations and class participation. The forms of examinations are varying depending on the materials covered. The course grade will be determined as follows:

Activities	Points
Homework assignment /Quizzes	200
Exam 1	270
Exam 2	270
Class participation	100
Peer evaluation by teammates	20
Planning for growth at A&S Air	60
The MBA Decision	60
Short biography and resume (individual)	20
Total	1,000

Assignments: Each chapter will have homework assigned on canvas including the due date. This assignment will be in a form of untimed quiz and marked by canvas. You will have one attempt to complete the assignment. Late group projects will be accepted but will be assessed a penalty of 10 points.

Exams: There will be two comprehensive examinations. Exam 1 will be based on the first part of the course. Exam 2 will be based on the second part of the course.

Peer Evaluation by Teammates: Your teams will be randomly assigned by canvas. At the end of the semester, you will be asked to evaluate your teammates' overall performance in the semester.

Writing Assignments: There will be group-work and individual writing assignments. These will be clearly stated on canvas regarding the assignment. After reading the report and hearing the presentations (if applicable), I will assign the overall grade of the whole team and will assign everyone the points he/she earns based on the anonymous peer evaluation for each project. The grading criteria for the writing assignments are accuracy of concept application, insightfulness, thoroughness, credibility, and clarity. Read the guidelines of the projects in the Appendix and follow the criteria. All writing assignments will be submitted on canvas.

Class Participation: Class participation includes participating in-class (engaging-in and adding-to the class discussion) as well as participating in discussion forums. Note that 'showing up', while necessary for participation, is not participation on its own. The class participation grade for each week will be reflected in your contribution in class participation discussion forum on canvas. Simply talking in class is better than nothing but quality counts too.

Class Participation Grading	
Class Attendance	Discussion Forum
Two Classes	Post and Response
(3,3)	(3,1)
Subtotal 6 points	Subtotal 4 points
Total 10 Points	

Bonus Points: You can add 1 percentage points to your final grade point average by submitting "discussions" of a news event related to international financial management topic every two weeks which earns 10 points through the term. The average of these points will count towards the bonus points. These discussions must be submitted through Canvas. Each discussion is not to be longer than one page, single spaced, and 10pt. type minimum. They must be in your words (or quotes) and the news must be timely. You should cite the source, but no documentation is necessary. You will also receive 5 bonus points for participating in course evaluation.

Course Grade

Due to the legal constraint regarding privacy issues, the grades will not be discussed via email or on the telephone. Your course grade will be based on the total points posted in your grade book. The total points are converted into a percentage by dividing by 1000. The course grade will be assigned according to the scheme below.

The final letter grade will be assigned according to the following guideline.

Grade	Quality Points	Percentage Range
A	4.0	94 – 100
A-	3.7	90 – 93
B+	3.3	87 – 89
B	3.0	83 – 86
B-	2.7	80 – 82
C+	2.3	77 – 79
C	2.0	73 – 76
C-	1.7	70 – 72
D+	1.3	66 – 69
D	1.0	60 – 65
F	0.0	0 – 59

It is not permissible to copy another person's work without attribution, to copy old assignments, or to copy another student's work. Individual assignments and exams are strictly individual effort. Anyone caught engaging in any form of academic dishonesty will receive a failing grade for the course and will be subject to additional penalties by the University.

SESSION OUTLINE

The schedule, policies, procedures, and assignments in this course are subject to change in the event of extenuating circumstances, by mutual agreement, and/or to ensure better student learning. L = Lecture, PS = Problem Solving, R = Review, E = Examination

Week	Main Concepts	Objective(s)	Format	Homework Problems
Week 1	Introduction and overview of the course Expectations of learning outcome Role of corporate finance Financial Market Environment Globalization (Ch 1, Ch 2)	Understand the overall objectives of the course. Explain the structure of the grading. Mutual understanding between students and instructor. Introduce on-line homework system 1. Understand objectives of financial decisions 2. Explore the issues of corporate governance 3. Understand functions of markets and institutions	L, PS	Assigned Problems on Canvas
Week 2	Tools for analyzing corporate finance Financial Statement and	1. Use ratios to analyze a firm's performance 2. Understand DuPont system of financial analysis	L, PS	Assigned Problems on Canvas

Week	Main Concepts	Objective(s)	Format	Homework Problems
	Cash Flow and Financial Planning (Ch 3)			
Week 3	Tools for analyzing corporate finance. Capital budgeting Understand time value of money; PV and FV of different CFs (Ch 4)	1. Implement present value calculation 2. Use of the formulae	L, PS	Assigned Problems on Canvas
Week 4	Tools for analyzing corporate finance Understand time value of money; PV and FV of different CFs (Ch 5) Discounted cash flow Valuation (Ch 6)	1. Implement present/future value calculation 2. Use of the formulae	L, PS	Assigned Problems on Canvas
Week 5	Tools for analyzing corporate finance Valuation and capital budgeting (Ch 9) Capital investment decisions (Ch 10)	1. Implement present value calculation 2. Use of the formulae	L, PS	Assigned Problems on Canvas
Week 6	Risk and return Measure return and risks Capital Asset Pricing Model (Ch 13)	1. Measure return and risk 2. Understand diversification 3. Apply CAPM 4. Estimate beta and return	L, PS	Assigned Problems on Canvas
Week 7	Exam 1	Exam 1	R, E	
Week 8	Cost of capital Understand the sources of capital Estimate cost of capital (Ch 14)	1. Understand the sources of capital 2. Determine the cost of various funds 3. Calculate the weighted average cost of capital	L, PS	Assigned Problems on Canvas
Week 10	Capital structure and leverage Operational and financial leverages Optimal capital structure theory (Ch 16)	1. Understand leverage, capital structure, breakeven analysis 2. Explore various types capital structure theory.	L, PS	Assigned Problems on Canvas

Week	Main Concepts	Objective(s)	Format	Homework Problems
		3. Apply EBIT-EPS approach to capital structure		
Week 11	Dividend and payout policy Definition of Terms Various Theory of Dividend Payout Policy (Ch 17)	1. Understand and apply theory of dividends 2. Identify the key factors affecting dividend policy 3. Understand dividend vs. stock splits	L, PS	Assigned Problems on Canvas
Week 12	Working capital management Short term finance and planning (Ch 18) Characteristics and Management of Current Liabilities (Ch 19) Credit and inventory management (Ch 20)	1. Understand working capital management 2. Understand the effects of managing short-term liabilities 3. Calculate the cash conversion cycle	L, PS	Assigned Problems on Canvas
Week 13	International corporate finance Major Factors Influencing the Financial Operations of Multinational Companies (MNCs) (Ch 21)	1. Understand and manage exchange rate risk and political risk 2. Understand FDI, cash flows, and capital structure of the MNCs	L, PS	
Week 13 23 Nov - 27 Nov	Thanksgiving Break			
Week 14		Final Examination 10:30 am --- 12:30 pm 15 December 2022		

PLEASE ALWAYS PLAN AHEAD AND PACE YOUR READING!

Academic Dishonesty and Ethics

Plagiarism is globally recognized as a serious academic offence. It is the policy of Northeastern University to expect academic honesty. Students who commit breaches of academic honesty will be subject to various sanctions. Please refer to the Northeastern University Undergraduate Handbook

<https://www.northeastern.edu/admissions/handbook/> for definitions of academic dishonesty and possible penalties.

You must always do your own work, and you never plagiarize or cheat on tests or papers. Follow the guidelines attached to this syllabus and any other handouts during the semester. Furthermore, all work you turn in must be completed by you for **this specific class**. **Failure to follow this policy could lead to an "F" in the course, suspension,**

and even expulsion from the University. By taking the course and by attending Northeastern University you agree to these conditions.

Each participant is expected to interact with other people, including students, guest speakers, and the professor, professionally and politely. Students who commit violations against civil behavior or language will be reported to the University VP for Student Affairs and subject to various sanctions.

Please keep in your mind that business world always hold very high moral standard to the professionals. The formation of professionalism is very critical to young scholars at modern business schools.

Email Access and CANVAS

Please check e-mail and CANVAS regularly. **Please always use your Northeastern University's e-mail but not your personal e-mail.** You can reach me through my Northeastern email or personal Gmail which are both listed in the syllabus. To efficiently resolve your problem, please indicate your class and name in e-mail.

Please expect 24 to 36 hours for the instructor to entertain your questions. In addition, writing your e-mail specifically and professionally is critical to address your needs.

Examinations

Our class does not have a MAKEUP or EARLY EXAM.

The format for the exams may consist of multiple-choice type questions and quantitative analysis problems. Material for the exams will come from assigned readings and problem sets for the covered chapters of the textbook along with the lecture notes. It is essential and helpful to understand how to solve the chapter-end questions in the preparation for the exams.

Projects

The goal of the projects is to empower students familiarize themselves with the investment analysis process. The projects should be done by a group. The projects and their due dates are posted on canvas. To be professional and fair, please submit it on time. In addition to paper submission, the professor may request Word and Excel files. **Make sure all files are readable in MS 97-2003 version before you submit them.**

General Guidelines for the Projects:

1. No late project is accepted. Note: only sending Word or Excel file will be considered incomplete submission.
2. Please abide by the following guidelines when writing your term project.
 - a. This project must be typed using Words 97-03. You should use **DOUBLE SPACES**. Use a 12-inch font, double-spacing, and 0.8 inch left, right, top, and bottom page margins. Adhere to the page restrictions given in the assignment. Make sure group member names appear on the report and that the pages are stapled together. (Feel free to add a cover page if you like.)
 - b. Your supplementary tables and graphs should be indexed, e.g., table 1, table 2, etc. In your manuscript, you should refer to a specific table to support your analysis.
 - c. You may be asked to make Power point slides for presentation of the progress.

Others

- 1) Bring your book to class. Tables and graphs from the text are referred to on some occasions.
- 2) Bring your calculators. We will work some problems in class.
- 3) Please assist everyone in class in remembering your names by bringing your name tag and sitting with your team throughout the semester.
- 4) I expect you devote at least nine hours per week to this course (beyond the lecture hours), including reading the textbook, previewing and reviewing lecture notes, working on the end-of-the-chapter exercises in the textbook, completing the projects/cases, doing exercise problems, and reading The Wall Street Journal and/or Business Week. Since you will learn a great deal of useful knowledge for future career, please make this commitment!
- 5) You are responsible for knowing what goes on in class, which may include material not covered in the readings, modifications to the syllabus, and announcements concerning tests and quizzes. Some announcements will be made via email. E-mail will be sent to your University e-mail address only. It is your responsibility to ensure that e-mail is correctly forwarded to an address that you do check.

- 6) Due to the limitation of class hours, I may only briefly discuss some material. You will be responsible for knowing all the assigned material for the quizzes and tests unless I make explicit announcements excluding some material.
- 7) I will appreciate any feedback regarding the course any time during the semester. If you have any suggestions, comments, or concerns about the course, please let me know. If you do not want to reveal your identity, you may send me an anonymous note. I also will take an anonymous online survey during the semester and will appreciate your cooperation.
- 8) The instructor reserves the right to make changes in this syllabus with notification to students.

Websites for International Finance Research

Wall Street Journal interactive edition	http://interactive.wsj.com/pages/money.htm
Bloomberg Financial Services	http://www.bloomberg.com/welcome.html
CNN Financial News	http://www.cnnfn.com/
Yahoo Finance	http://finance.yahoo.com
(This Website includes financial ratios and historical data for stocks & indexes.)	
New York Times	http://www.nytimes.com
Historical Exchange Rates	http://www.oanda.com/currency/historical-rates/
New York Stock Exchange	http://www.nyse.com/
NSDAQ/AMEX	http://www.nasdaq.com/
Chicago Board of Trade	http://www.cbot.com/
Chicago Mercantile Exchange	http://www.cme.com/
Philadelphia Stock Exchange	http://www.phlx.com/
Citibank	http://www.citigroup.com
The Vanguard Group-mutual funds	http://www.vanguard.com/
Fidelity Investments - mutual funds	http://www161.fidelity.com/
Federal Reserve Bank of NY	http://www.ny.frb.org/pihome/statistics/
Federal Reserve Economic Data (FRED)	http://www.stls.frb.org/fred/
Federal Reserve Board	http://www.federalreserve.gov/
Federal Reserve	http://www.bog.frb.fed.us/
FOMC	http://www.federalreserve.gov/fomc/
Fed Stats (Link to federal agencies)	http://www.fedstats.gov/
Bureau of the Census	http://www.census.gov/
Bureau of Labor Statistics	http://stats.bls.gov/blshome.html
Business Cycle Indicator	http://stats.bls.gov/blshome.html
Leading Market Technologies	http://www.lmt-expo.com/sources.htm
International Monetary Fund	http://www.imf.org/
Wall Street Research Network	http://www.wsrn.com/
Internal Revenue Service	http://www.irs.ustreas.gov/prod/tax_stats/index.html
Bankruptcy library	http://bankrupt.com/
Economics calendar	http://biz.yahoo.com/calendar
Economic Research site	http://www.dismal.com/
Stock market valuation calculator	http://www.dismal.com/cgi/stocks.asp
Economics calendar	http://biz.yahoo.com/calendar
Analysis of recently released economic data	WWW.bridge.com
PCBE (Phila. Council Business Economics)	http://www.nabe.com/chapters/phlhome.htm
NABE (Natl. Assoc. Business Economics)	http://www.nabe.com
SEC & Edgar	http://www.sec.gov/index.html
	http://www.edgar-online.com
Company ratios and financial reports	http://www.freedgar.com
FASB	http://www.fasb.org
CFA exam information	http://www.aimr.org

Financial Information Library

<http://www.excite.com/xdr/business/companies/index.html>
<http://www.corpfinet.com>
<http://www.worldnet.att.net/explore/business/index.html>
<http://www.quicken.com/investments>
<http://www.mbnet.mb.ca:80/~russell/>
<http://www.streetlink.com>
<http://www.experian.com/index.html>

Morningstar's approach to stock analysis:

<http://news.morningstar.com/iandwin/Msapproach.pdf>

United Nations statistics

<http://www.unsystem.org/>

World Bank public information

<http://www.worldbank.org/>

White House Statistics Briefing Room

<http://www.whitehouse.gov/fsbr/esbr.html>

U.S. Commerce Dept.

<http://www.doc.gov/bureaus/econ.htm>

OECD

<http://www.oecd.org/>

Moody's

<http://www.moody's.com>

FDIC

www.fdic.gov

Bank of America

<http://www.boa.com>

American Banker financial resource

<http://www.americanbanker.com/index.html>

Morgan Stanley Capital International

<http://msci.com>

CIA Factbook

<https://www.cia.gov/library/>

The World Bank: Indicators.

<http://data.worldbank.org/indicator/>

International Monetary Fund: Data and Statistics.

<http://www.imf.org/external/data.htm>

U.S. Department of State. Background

<http://www.state.gov/>

Historical Exchange Rates – OANDA.

<http://www.oanda.com/currency/historical-rates/>

World Federation of Exchanges:

<http://www.world-exchanges.org/statistics>

"An investment in knowledge pays the best interest." - Benjamin Franklin

Bon Voyage!

Group Assignment: Planning for Growth at S&S Air [60 Points]

Due 17 November 2022

Submission by only one group member

After Chris completed the ratio analysis at S&S Air, Mark and Todd approached him about planning for next year's sales. The company had historically used little planning for investment needs. As a result, the company experienced challenging times because of cash flow problems. The lack of planning resulted in missed sales, as well as periods when Mark and Todd were unable to salaries. To this end they would want Chris to prepare a financial plan for next year so the company can begin to address any outside investment requirements. Use sustainable growth rate $g = ROE \times b / (1 - ROE \times b)$. Assume constant debt policy. The income statement and balance sheet are shown below.

S&S Air, Inc. 2021 Income Statement			
Sales		\$37,038,492	
Cost of goods sold		27,629,530	
Other expenses		4,696,692	
Depreciation		1,659,882	
EBIT		\$ 3,052,388	
Interest		580,078	
Taxable income		\$ 2,472,310	
Taxes (21%)		618,078	
Net income		\$ 1,854,232	
Dividends	\$ 565,000		
Addition to retained earnings	1,289,232		

S&S Air, Inc. 2021 Balance Sheet			
Assets		Liabilities and Equity	
Current assets		Current liabilities	
Cash	\$ 419,970	Accounts payable	\$ 854,685
Accounts receivable	674,475	Notes payable	1,951,642
Inventory	988,129	Total liabilities	\$ 2,806,327
Total current assets	\$ 2,082,574	Long-term debt	\$ 5,100,000
Fixed assets		Shareholder equity	
Net plant and equipment		Common stock	\$ 410,000
		Retained earnings	10,071,803
		Total equity	\$ 10,481,803
Total assets	\$ 18,388,130	Total liabilities and equity	\$ 18,388,130

Your report should be based on answers to the following questions.

Questions

1. Calculate the internal growth rate and sustainable growth rate for S&S Air. What does the number mean?
2. S&S Air is planning a growth rate of 12 percent next year. Calculate the EFN for the company assuming the company is operating at full capacity. Can the company's sales increase at this growth rate?
3. Most assets can be increased as a percentage of sales. For instance, cash can be increased by any amount. However, fixed assets must be increased in specific amounts because it is impossible, as a practical matter, to buy part of a new plant or machine. In this case, the case the company has a 'staircase', 'lumpy' fixed cost structure. Assume that S&S Air is currently producing at 100 percent full capacity. As a result, to increase production, the company must set up an entirely new line at a cost of \$5,000,000. Calculate the new EFN with this assumption. What does this imply about capacity utilization for the next year? (Capacity Utilization = Projected sales to fixed assets ratio/Current sales to fixed assets ratio)
4. Any references?

Group Assignment: The MBA Decision [60 Points]

Due 28 November 2022

Submission by only one group member

Ben currently works at the money management firm of Dewy and Louis. His annual salary at the firm is \$57,000 per year and his salary is expected to grow at 3 percent per year until retirement. He is 28 years old and expects to work for 38 more years. His current job includes a fully health insurance plan, and his average tax rate is 26 percent. Ben has a savings account with enough money to cover the entire cost of the MBA program.

The Ritter College of Business at Wilton University is one of the top MBA programs in the country. The MBA degree requires two years of full-time enrollment at the university. The annual tuition is \$62,000, payable at the beginning of the year. Books and other supplies are estimated to cost \$2,000 per year. Ben expects that after graduation from Wilton University, he will receive a job offer for about \$91,000 year, with a \$10,000 signing bonus. The salary at this job will increase at 4 percent per year. Because of the higher salary, his average income tax will increase to 31 percent.

The Bradley School of Business at Mount Perry College began its MBA program 16 years ago. The Bradley School is smaller and less well known than the Ritter College. Bradley offers an accelerated one-year program, with a tuition cost of \$84,000 to be paid upon matriculation. Books and other supplies for the program are expected to cost \$4,200. Ben thinks that he will receive an offer of \$81,000 upon graduation, with an \$8,000 signing bonus. The salary at this job is expected to increase at 3.5 percent per year. His tax rate at this level of income will be 29 percent.

Both schools offer a health insurance that will cost \$3,000 per year, payable at the beginning of the year. Ben has also found that both schools offer graduate housing. His room and board expenses will decrease by \$4,000 per year at either school he attends. The appropriate discount rate is 5.5 percent.

Your report should be based on answers to the following questions.

Questions

1. How does Ben's age affect his decision to get an MBA?
2. What other, perhaps nonquantifiable, factors affect Ben's decision to get an MBA?
3. Assume all salaries are paid at the end of each year, what is the best option for Ben from a strictly financial standpoint?
4. Ben believes that the appropriate analysis is to calculate the future value of each option. How would you evaluate this statement?
5. What initial salary would Ben need to receive to make him indifferent between attending Wilton University and staying in his current position?
6. Suppose instead of being able to pay cash for his MBA, Ben must borrow the money. The current borrowing rate is 5.4 percent. How would this affect his decision?