

**THE UNIVERSITY OF MICHIGAN – DEARBORN  
COLLEGE OF BUSINESS**

**FIN531 – FINANCE FUNDAMENTALS AND VALUE CREATION**

INSTRUCTOR:	Hei-Wai LEE, Ph.D., CFA	TERM:	Fall, 2013
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OFFICE HOURS:	4:45 - 5:45 p.m. T or by appointment	SECTION:	6:10 - 9:00 p.m. T
		ROOM:	152 FCS

**COURSE DESCRIPTION:**

(Prerequisites\*: [ACC 505](#); [statistics admission prerequisite](#) and [prior course work in economics](#). [BE 530](#) is recommended)

Examine the financial goals of a corporation with an emphasis on value creation. Capital budgeting techniques are extensively developed. Valuation of securities is presented along with an introduction to modern portfolio theory and market efficiency. Issues related to international finance are also addressed.

\* You are expected to have thorough and working knowledge of materials covered in all (implicit and explicit) prerequisite courses. If you took the prerequisite courses quite a while ago, you are responsible for refreshing yourself on the materials covered in these courses.

**COURSE OBJECTIVES:**

This course provides a market-oriented framework for analyzing the major types of financial decisions made by corporations, with an emphasis on the investment decision. Lectures will provide a thorough introduction to discounted cash flow techniques, capital budgeting, financial asset valuation, market efficiency and other corporate financial issues.

After completing this course, students are expected to demonstrate a solid understanding of the two fundamental principles of finance, namely, time value of money and risk-return tradeoff, and how they apply to the valuation of financial and real assets. Students will also gain an understanding of how domestic and international economic environments, and ethical/social issues, influence the decision making of financial executives.

## **MBA PROGRAM ASSESSMENT:**

FIN 531 contributes to Objectives #1 and #2 under Goal #1 via class discussions, individual homework assignments, group assignment, and examinations.

**Goal 1:** Students will have an understanding of the core business disciplines and be able to apply this knowledge to global business situations.

Objective 1: Students will demonstrate knowledge of disciplinary concepts, terminology, models, and perspectives.

Objective 2: Students will identify business problems and apply appropriate solutions (problem-finding/problem-solving).

## **MSF PROGRAM ASSESSMENT:**

FIN 531 contributes to Objectives #1a and #1b under Goal #1 via class discussions, individual homework assignments, group assignment, and examinations.

**Goal 1:** Our students will demonstrate analytical skills in solving financial problems.

Objectives: Students will demonstrate the ability to:

1a. analyze and manage risk in a global setting

1b. estimate the value of real or financial assets

## **COURSE RESOURCES:**

**Readings:** CORPORATE FINANCE by Ross, Westerfield and Jaffe, 10<sup>th</sup> ed. 2013, Irwin/McGraw-Hill (REQUIRED)

Powerpoint Presentation Slides for Corporate Finance (REQUIRED)

Additional readings to be assigned and announced

On-line Learning Center for Corporate Finance (Recommended) -

[http://highered.mcgraw-hill.com/sites/0078034779/information\\_center\\_view0/](http://highered.mcgraw-hill.com/sites/0078034779/information_center_view0/)

**Supplemental:** Access to the Wall Street Journal and its equivalent news websites for keeping abreast of current events.

An adequate financial calculator, e.g., Texas Instrument Business Analyst II+.

Access to Canvas course shell - <http://canvas.umd.umich.edu/>; electronic mail and Internet resources.

## **GRADING:**

### **A. Composition**

2 Examinations	70%
Group Assignment	17%
2 Homework Assignments & In-Class/Online Participation	13%

### **B. Notes for TWO Examinations**

- Higher scored examination accounts for 40% of the course grade.
- Non-cumulative in nature, but may have overlapped topics between examinations. However, concepts tested are inherently cumulative.
- Coverage: assigned chapters and readings, lectures and assignments.
- Format: multiple choice questions, true-false questions, short answers/fill-in-the-blanks, and numerical problems.
- Questions given on the examination will require understanding of the course materials and will not simply be modifications of end-of-chapter problems.

### **C. Group Assignment**

- Telemet applications on selected topics covered in the course (attached).
- OR** Comprehensive coverage of capital budgeting topics covered in the course (See separate instructions handout for further details).

### **D. Notes for 2 Homework Assignments & In-Class/Online Participation**

- Composed of respective samples of past examination problems
- Active participation in constructive in-class and/or online discussions is expected.

### **E. Scale**

100% - 98%	A+ ;	97.9% - 94%	A ;	93.9% - 90%	A- ;
89.9% - 87%	B+ ;	86.9% - 83%	B ;	82.9% - 80%	B- ;
79.9% - 77%	C+ ;	76.9% - 73%	C ;	72.9% - 70%	C- ;
69.9% - 60%	D's ;	< 60%	E		

## **COURSE POLICIES:**

### **1. Grade Determination**

Make-up or extra work to improve your grade is not possible. Your final grade is determined solely by the above grading components. In addition, no special considerations concerning your general academic situation can be offered. The final grade in this course, once assigned, will not be changed except in the event of a grading error.

2. **Absence from Examination**

Absence from examination will only be granted to students who can provide official documentation of illness or personal emergency. The students are responsible for informing the instructor as soon as possible regarding a missed examination. Otherwise, students will receive a score of zero for missing examinations. Students are responsible for the costs and fees associated with arranging for his/her taking the missed examination.

3. **Class Attendance and Preparation**

You are responsible for coming prepared to all classes. Readings should be done in advance of class in which the assigned materials will be discussed. If for whatever reason you miss a class, it is your responsibility to get the materials and any announcements that you miss. You are expected to visit the course page regularly. If you have questions about what you miss, ask the instructor or a classmate prior to the next class meeting. In addition, you should bring a calculator to each class so that you can participate in working through in-class numerical problems.

Positive contributions to the learning experience of the class will be greatly appreciated. On the other hand, destructive and/or distractive behaviors that negatively affect the learning or teaching experience in this class will be penalized.

4. **Statement on Academic Integrity**

The University of Michigan – Dearborn values academic honesty and integrity. Each student has a responsibility to understand, accept, and comply with the university's standards of academic conduct as set forth by the Code of Academic Conduct, as well as policies established by the schools and colleges. Cheating, collusion, misconduct, fabrication, and plagiarism are considered serious offenses. Violations will not be tolerated and may result in penalties up to and including expulsion from the University.

Students can find the Academic Code of Conduct at the URL listed below.

[http://www.umd.umich.edu/policies\\_st-rights/](http://www.umd.umich.edu/policies_st-rights/)

5. **Appeals**

Students may appeal grading of an examination or other assignment by providing a written (neatly typed and professionally presented) appeal that describes the nature of the disagreement. All appeals must be turned in by the end of the first class period after the return of the assignment. I will conscientiously consider all qualified appeals and render a decision within a reasonable period of time. However, I reserve the right to regrade the entire examination or assignment which would result in a lower grade if errors are found which were originally marked as correct.

## **ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES**

The University will make reasonable accommodations for persons with documented disabilities. Students need to register with Disability Resource Services every semester they are taking classes. DRS is located in Counseling and Support Services, 1060 UM. To be assured of having services when they are needed, students should register no later than three weeks after the first day of classes.

## Emergency Preparedness

(On behalf of the Provost Office and the Campus All Hazards Committee)

- Program 911 into your cell phones. You should also program Public Safety's phone number 313-593-5333 into your cell phone. In case of emergency you should first dial 911. If the situation allows also call UM-Dearborn Public Safety to ensure the quickest response time possible.
- Students and faculty are strongly encouraged to register for the campus Emergency Alert System. This system will be used to communicate emergency notifications to the campus community during an emergency incident. More information on the system and how it works, along with a link to enroll in the system can be found at: <http://umemergencyalert.umd.umich.edu/>. Please note that the system will only communicate through an individual's UM-Dearborn email account so faculty and students who primarily use other non-university email accounts should forward their UM-Dearborn email to their primary account. **Cell phone registration is strongly encouraged for text messaging communication.**
- Students/faculty members are encouraged to identify a "buddy" in the class. The "buddy" system is designed to facilitate mutual assistance and to provide rapid and effective assistance to people in case of an emergency. Emergency responders as well as individuals evacuating an area or building use the "buddy" system. So please, identify a buddy.
- Please advise students of two ways out of the building. Identify the building's designated assembly area where students are expected to go in the event of an evacuation: [http://www.umd.umich.edu/fileadmin/env-health-safety/public/files/Site\\_Assm\\_Areas\\_2011.pdf](http://www.umd.umich.edu/fileadmin/env-health-safety/public/files/Site_Assm_Areas_2011.pdf). Advise students of the "Area of Rescue Assistance" for those needing assistance in an evacuation: [http://www.umd.umich.edu/fileadmin/env-health-safety/public/files/Handicap\\_Accessible\\_Locations.pdf](http://www.umd.umich.edu/fileadmin/env-health-safety/public/files/Handicap_Accessible_Locations.pdf)
- Please advise students of the locations in the building identified as shelter areas in the event of severe weather. Specific shelter locations for severe weather incidents can be located at: <http://www.umd.umich.edu/691921/>.
- Please advise students of "shelter-in-place" procedures. These procedures should be followed in the event of a shelter-in-place situation during an emergency situation.
  1. Contact 911 immediately to report an emergency.
  2. Find a safe area such as small rooms, under furniture, or other safe areas.
    - a. Lock or block doors in rooms where you and others are located. For building interior rooms, close blinds, shut off lights.

- b. Rooms facing the outside should have blinds open!
  - c. Get down—preferably under tables, furniture or equipment. Stay away from the door.
  - d. Remain silent (silence all personal communication devices) and stay in place.
3. If you are grouped in an area with other people, select a leader while maintaining a quiet atmosphere.
  - a. The leader should contact 911 to report critical information such as the number of people and your location.
4. Attempt to maintain a calm quiet atmosphere.
5. Stay sheltered until you receive an “all clear” message from law enforcement.
6. Follow law enforcement direction.

Additional information regarding shelter-in-place procedures can be obtained by viewing the follow video: <http://www.casl.umd.umich.edu/classroomsafety>.

- It is important to remain as calm as possible in the event of an active shooter. If it is safe to evacuate, the class will do so. If evacuation is not possible, the class will follow the “shelter-in-place” procedures above.

## TENTATIVE Course Outline and Schedule

September 10	Ch. 1 Ch. 2	Introduction and Shareholder Wealth Maximization Financial Statements and Cash Flow
September 17	Ch. 2 Ch. 3*	Financial Statements and Cash Flow (cont'd) Financial Statements Analysis and Model ( <i>Self Review</i> )
September 24	Ch. 4	Discounted Cash Flow Valuation (Time Value of Money)
October 1	Ch. 4 Ch. 5	Discounted Cash Flow Valuation (Time Value of Money) NPV and Other Investment Rules
October 8	Ch. 5 Ch. 6	NPV and Other Investment Rules Making Capital Investment Decisions
October 15	Ch. 6 Ch. 7	Making Capital Investment Decisions Risk Analysis, Real Options and Capital Budgeting
October 22	Ch. 7	Risk Analysis, Real Options and Capital Budgeting
<b>October 23~26</b>		<b>Midterm Examination (Chapters 1~6; via Canvas) HW Assignment for ME DUE in class</b>
October 29	Ch. 8	Interest Rates and Bond Valuation
November 5	Ch. 9	Stock Valuation
November 12	Ch. 10 Ch. 11	Risk and Return: Lessons from Market History Return and Risk - The CAPM
November 19	Ch. 11	Return and Risk - The CAPM (cont'd)
November 26	Ch. 13	Risk, Cost of Capital, and Capital Budgeting
December <u>3</u> /10 <i>(Self Study)</i>	Ch. 14 <i>Ch. 25*</i> <i>Ch. 31*</i>	Efficient Capital Markets and Corporate Finance <i>Introduction to Derivatives and Hedging</i> <i>Introduction to International Corporate Finance</i>
<b>December 3</b>		<b>Group Assignment Due</b>
<b>December 15~17</b>		<b>Final Examination (Chapters 7~11 &amp; 13-14) HW Assignment for FE DUE in class</b>

**NOTES:**     The syllabus is subject to change at the professor's discretion.  
                  \*: Selected sections only.

## Telemet Applications and Group Assignment

Chapter & Project Topics	Tasks	Type of Assignment	Telemet Orion TipSheets V8.0
<b>1.</b> Introduction to Corporate Finance	<p>1. Each group is asked to download/print basic fundamental information about a stable dividend paying company of their choice.</p> <p>2. Each group is asked to write an overview report on comparing their company's basic fundamental information with that of the competitor/industry and/or the market.</p>	<b>Demonstration &amp; Group Assignment</b>	<p>Introductory Note</p> <p><b>#1</b> Market and Industry Activity at-a-glance</p> <p><b>#2</b> Real-time and fundamental data on any company</p> <p><b>#3</b> Snap Report - a handy "one-pager" on any company</p> <p><b>#23</b> Corporate actions include acquisitions, bankruptcy, etc. Dividend and split historical data are also available.</p>
<b>2&amp;3.</b> Financial Statement Review, Taxes, and Cash Flow (including ratio analysis)	1. Each group is asked to download/print their company's financial statements, and to perform both the trend and peer group analyses of financial ratios on their company and its competitor over a 3~5 year period with their own ratio calculation.	<b>Demonstration &amp; Group Assignment</b>	<b>#21</b> Access to B/S, IS, cash flows, 10Ks and 10Qs
<b>9.</b> Stock Valuation	<p>1. Each group is asked to download/print and analyze charts that show relationships between stock price movements and financial fundamental of their company, as well as a comparison with movements of the S&amp;P 500 Index.</p> <p>2. Each group is asked to download the snap news and analyze the impacts of the news on their company's stock price.</p> <p>3. Each group is asked to apply the Intrinsic Value Analysis (with the DCF method) to make investment recommendation on their company's stock.</p>	<b>Demonstration &amp; Group Assignment</b>	<p><b>#13</b> See up to 10 years of daily, weekly or monthly price and volume data</p> <p><b>#14</b> Compare price action for two or more companies on the same chart</p> <p><b>#15</b> Chart Ticker vs. revenue, dividends, P/E</p> <p><b>#18</b> See news on any one company using "Snap News"</p>
<b>10&amp;11.</b> Risk and Return	<p>1. Demonstrate how the value of each position impacts on the portfolio overall value.</p> <p>2. Compare the portfolio performance to a benchmark, such as S&amp;P 500 index, to understand the relation between risk and return.</p>	<b>Demonstration</b>	<p><b>#26</b> See the impact each position in a portfolio has on the overall value of the portfolio</p> <p><b>#27</b> See a portfolio's balance compared to a benchmark</p>