

BUS 221- Managerial Finance

Syllabus and Information

Fall 2007

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"Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."
Charles Dickens, David Copperfield, 1849

Course Materials

- 1) Brealey, Myers and Allen 2006, *Principles of Corporate Finance*, 8th Edition, McGraw-Hill.
This is the most popular finance textbook in the world. It is used as the MBA and undergraduate honors text at many top schools. I have chosen it to help you decide your level of interest in the subject. (ISBN 0-07-295723-9, required)
- 2) Financial calculator – You may use a financial calculator on the tests to check your work, but you must **show** your math for full credit. The TI-BAII or HP 10B are good, I'll use the TI in class. Really, the least expensive calculator will work. (Important keys: e^x , $\ln(x)$, y^x and $1/X$).
- 3) A USB drive is a good way to save files in the lab, but you can also email them to yourself.
- 4) I will post in-class spreadsheet examples and homework solutions on the L drive. Please bring the course notes and a calculator to class. Don't bring the book.

Attendance

Part of your grade is based on participation. I may call you to help me work problems or to ask you questions. My experience has been that absent students find the projects almost impossible and struggle with the exams.

Come Visit Me

If you need any help or want to just want to say hello, please come visit. If you need to see me outside of office hours, please call or email to be sure I'm there. I occasionally attend WIS meetings, which are infrequent. These meetings may be scheduled during C hour on MWF. If my regular office hours don't work, I also have a floating office hour each week. I will set the floating hour according to the first request (just ask or email). If you see me around W&L or Lexington, feel free to say hello.

Description and Course Objectives

The objective of this course is to provide the student with an introduction to the principles of financial management. The areas of study include: financial markets and instruments, time value of money, valuation of assets and projects under certainty and uncertainty, and corporate financing policy. The ability to collect, analyze and present information (in our case financial information) is critical in every area of business, politics and economics. We will devote some of our class time to finance principles and their applications, and some time to building analytical skills.

Learning Objective 1: Understand the Time Value of Money

A dollar today is worth more than a dollar tomorrow. After all, a dollar today can collect interest. This objective provides the foundation for the study of finance. We will compare projects and firms by computing the PV of expected cash flows. We will employ techniques such as NPV (Net Present Value) analysis to make value-maximizing decisions.

Learning Objective 2: Characterize the Nature of Financial Risk

A risky dollar is worth less than a safe dollar. How do we characterize and value risky cash flows? This question is important and will be studied when we introduce portfolio theory and the Capital Asset Pricing Model (CAPM).

Learning Objective 3: Sharpen our Financial Math and Modeling Skills.

To investigate most areas in finance, we must be willing to improve our math skills. We will seek to develop the math skills needed to understand applications of finance theory. We must also have the ability to import, analyze and present financial data on a spreadsheet. This objective is the focus of our four projects.

Learning Objective 4: Understand the Goals of the Financial Manager

How should a manager decide among risky alternatives? Is there a rule to for making financial decisions in the best interest of the firm?

Grades

Grades are based on two exams, a final, four projects, and in-class participation. Course grades are weighted as follows:

Exam 1:	25%
Exam 2:	25%
Comprehensive Final:	25%
Projects:	20%
Participation:	5%

Your exam will receive a letter grade: A, B, C, D or F worth 4, 3, 2, 1 and 0 points respectively. A plus will add 0.33 and a minus will subtract 0.33. The value for the projects will be $4.0 \times (\text{total points}/100)$, so a student with a 90 total will receive 3.60 points. The final grade will be the grade closest to weighted average of your course elements. For example, a student with an average of 3.83 and above will receive an A. An A- will be the range (0.33 wide) around 3.67 (3.5-3.83). A B+ will be centered at 3.33 (3.16 to 3.49), and so on.

Exam/Final Info: Each exam will have a time limit and the rules of the honor code apply. The exams may include problems, short-answer questions, definitions, and multiple-choice questions. The exams are closed book and closed class notes, but a formula card is permitted.

- You may bring a note card (up to 4"x6" you may use front and back) with any formulas you like to each of the exams. The note card must contain only formulas and symbol definitions. No worked examples, graphs, hints or concept definitions are permitted on the card, and the card must be turned in with the exam.

For example: $r = w r_P + (1 - w) r_f$ w - % invested in P, r_P - return on P, r_f - risk-free rate

- If you have a question about your note card, just show it to me anytime before the exam.
- You may use a financial calculator on the exam, but must show the underlying calculations on each problem. While you may use any resident function available on the calculator, you may not use the programmable part of your calculator to store text or automate solutions on any test.
- Cell phone should be turned off and stored away during tests.
- I will try to return the exams to you at the next class meeting. At the end of that class, I will collect them back from you.
- If you have specific questions about your exam (or did not get your grade), please come by my office or ask after class.

Homework

Suggested homework questions are given in the outline on the following page. In addition to the assigned questions, each chapter also contains a quiz section. Although I don't list specific quiz problems, you should use them as part of your review. The answers to the quiz problems are available in Appendix B. If time allows, I will work selected problems in class. Some questions from the text will be graded as part of the projects. An answer key to all assigned Practice Questions (PQ) and Challenge Questions (CQ) will be provided on the L drive. For maximum benefit, try the problems before looking at the answer.

Projects/Cases

To reinforce our course objectives there are four planned computer projects. Some of the problems are difficult. We will work variations of the project problems in class before the due date. The best way to keep up is to try the project immediately after that review. Please don't ask me to go over the projects during hours if you are absent (unexcused variety) from the review. Most of our projects are done in Excel, and may be copied into MS Word. Do not buy fancy book report covers for your project, please just staple the pages together. The cover page should have your name, the project number and the class time.

Projects are due at the beginning of class on the announced dates. Late projects of the unexcused variety will accrue a 2 point penalty per 24 hours or part thereof; just slide the project under my office door along with the self-calculated penalty. If you have a printer problem or some other technical issue, turn in what you have at class time (tell me about the problem and we will arrange a solution without penalty). Please do not consult students with old projects from my class or provide your old projects to rising students preparing to take my class. I would like future students to have the opportunity to think about the solutions, and I ask for your help.

I do not consider it a violation of my trust if you work with a classmate. My hope is that you will not be using this as an opportunity to do some good ole fashion "splitting up and copying". Acceptable cooperation can range from asking a student sitting next to you in the lab a simple question such as "how did you get that to graph?" or "can you see what I've done wrong here?" to working alongside a friend in the lab. You should disclose it on the cover page: "I acknowledge Mortimer Duke for help graphing problem 3", or "I worked with Randolph Duke". Questions about the projects may appear on the exams.

It is NOT acceptable to copy, print or adapt a file from another student (current or former) and attempt to pass it off as your own work. If you have any questions, about what is or is not acceptable cooperation please ask me. If you are stuck, need Excel help, or have a question, I am happy to help you. I will also be available in the computer lab on the dates listed below. I will circulate around in the lab, but will not hold a formal class.

Project	TOPIC	Planned Due Date	Williams 322 Computer Lab (Optional Help: 9:30a-11a)
1	PV, FV, Annuities, Compounding, Loans	9/25	TBA, usually the day before the planned due date
2	Bonds, Equity Valuation	10/17	TBA
3	NPV, IRR, Risk	11/6	TBA
4	Risk & Capital Budgeting	11/29	TBA

Planned topics, suggested reading, and quiz dates

These topics may change. I reserve the right to change the quiz dates with 2 weeks notice.

All concept review questions are suggested for the chapters below, I have suggested some Practice Questions (PQ) and Challenge Questions (CQ), which see below.

Dates	Planned Topics
9/6	What is Finance? (Brealey, Meyers and Allen (BMA): Chapter 35) Introduction to Corporate Finance (Read BMA: Chapter 1)
9/11-9/13 Week 1	Time Value of Money (Read BMA: Ch 2) Chap 2 PQ: 1,2,3,5,6 CQ: 1,2 Present values & Compounding (Read BMA: Chap 3) Chap 3 PQ: 1-10, 15-20,23-25, CQ: 1,3
9/18-9/20 Week 2	Management Objectives and the NPV Rule (Chapters 2&3 Continued)
9/25-9/27 Week 3	Bonds - Valuation, Gov't Bonds, Term Structure (Read BMA: Chap 4.1,23.1-3) Chap 4 PQ: 1-3 Chap 23 PQ: 1,2,6,7
10/2-10/4 Week 4	Stocks - Markets, Valuation (Read BMA: Chap 4, BMA Chap 29) Chap 4 PQ: 4, 6-8, 11-13
10/9	Exam I
10/11	☺☺☺☺☺☺☺☺☺ Fall Reading Day ☺☺☺☺☺☺☺☺☺
10/15-10/17 Week 6	Capital Budgeting: NPV & Alternatives (Read BMA: Chapters 5) Chap 5 PQ: 1-8
10/23-10/25 Week 7	NPV rule (Read BMA: Chapters 6) Chap 6 PQ: 2-6,17-19
10/30-11/1 Week 8	Risk and Return (Read BMA: Chap 7) Chapter 7 PQ: 1,3,5-7,12,13 Optimal Portfolios and intro to the CAPM (Read BMA: Chap 8.1-8.3) Chapter 8 PQ: 1,3,4,8,11
11/6-11/8 Week 9	Chapter 8 Continued Exam II
11/13-11/15 Week 10	Choosing a discount rate (Read BMA 9.1-9.3) Chapter 9 PQ: 1,5,7,11 WACC (Class Handout and Read BMA 19.1-2) Stock Ratios and DCF Valuation (Class Handout)
11/19-11/23	☺☺☺☺☺☺☺☺☺ Thanksgiving ☺☺☺☺☺☺☺☺☺
11/27-11/29 Week 11	Flexibility in Project Management (Read BMA: Chapter 10) Chapter 10 PQ 1,4,9,10 Capital Budgeting Under Uncertainty
12/4-12/6 Week 12	Efficient Markets (BMA Chapter 13) PQ: 1-10, CQ 1 Corporate Financing (Read BMA Chapter 14) PQ: 1,3,4,5,6

Suggestions/Other Things:

Suggestions to improve any part of the course are always welcome. If you have a question or need me to slow down, please feel free to stop me.