

Fin3320 Business Finance – Fall 2014
Instructed by Professor **Greg Durham**, PhD

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Office Hours: Mon. & Wed. 4:00-5:15pm, Tue. & Thu.
5:30-6:45pm, and by appointment on Tue.,
Wed., or Thu. (please see note below)

Homepage: www.utdallas.edu/~gxd141330 – I may or may not use this webpage for this course

Course Prerequisites:

The prerequisite courses for Fin3320 are Math1326, Math2333 (or OpRe3333), Acct2301, Acct2302, & MIS3300. This Fin3320 course has one co-requisite course: either Stat3360 or OpRe3360. Also, at an absolute minimum, I expect you to have a basic understanding of *Excel*, as well as a basic understanding of balance sheets and income statements.

Course Description:

This course offers rather in-depth coverage of the fundamentals of corporate finance, an overview suitable for any student who is interested in finance.

We begin by learning how to use accounting information to evaluate a firm's financial health and its tax burden, and we learn why investors care more about cash flow than accounting-based performance. We will spend a fair amount of time learning how insightful a statement of cash flows can be and how this statement ties back to the balance sheets and an income statement.

We will then spend a reasonable amount of time ensuring that you have a clear understanding of the time value of money — if there is one concept of which every student should walk away from this class with a clearer understanding, it is time value of money. We then use the time-value-of-money concepts to value an uncertain stream of future cash flows which an asset is expected to generate.

The second module begins with specific applications of the valuation of a stream of future cash flows: we learn how to value bonds and stocks. Next, we will study the fundamental investing and operating decisions undertaken by a firm's management. We will consider which of the many possible investment projects available to the firm are worth undertaking, using fundamental tools such as net present value analysis. We will delve into the tools' math, which relies heavily on time-value-of-money principles, and we will also learn the process that goes into determining which cash flows are relevant to, and should be included, in the analysis.

The third module has two main foci. We first focus on the trade-off between risk and return and on how portfolio diversification can reduce risk without compromising return! (Of course, we also need to know how to measure risk, as well as what kind of risk is important.) This diversification theory can serve an individual well either in his/her personal investments or in his/her role as a firm's manager, since a firm is effectively a portfolio of assets. We will focus on the most common sources of long-term financing (namely, debt and equity), as well as the costs and expectations associated with each respective source of capital. These variables will tie together into an important concept called weighted average cost of capital, which essentially tells the firm the average rate of return that its various investors are requiring. We will conclude with a brief overview of the theory of efficient markets.

Course Objectives:

You will learn to understand how and when to apply the basic concepts of financial analysis in a business setting, demonstrated through your ability to:

- Be able to apply time value of money concepts to various valuation problems.
- Be able to describe what drives a firm's cost of capital and how to estimate it.
- Be able to analyze investments in real and financial assets using various methodologies.

Required Calculator:

A Texas Instruments BA II Plus (or Plus Professional) is the only calculator you will be able to use on the exams. Instructions for how to optimally use this calculator will be posted on eLearning.

Text, Lecture Notes, & Supplementary Notes:

The required text is S. Ross, R. Westerfield, & B. Jordan, *Fundamentals of Corporate Finance*, 10th Ed., McGraw-Hill Companies, Inc. [with a *Connect* access code that is required for this course]. If you purchase *Connect Plus*, you can get a *Connect* access code plus a digital copy of the textbook. You do need access to *Connect* this semester; *Connect* is an online software that allows students to submit homework assignments and check their work on-line.

For each chapter, I will bring enough lecture notes so that each person may have one copy. I will follow these lecture notes closely in the classroom. Also, I will occasionally hand out supplementary notes, reading materials, example problems, etc. If you fail to receive the lecture notes or any of the supplementary items when I distribute them, you may contact your Class Administrator (as described below).

Class Administrators:

For each of my two sections of this course this semester, I will employ five Class Administrators (CAs). Each CA will have his/her final course grade revised upward by 1.50% for the extra work that he/she performs during the semester. Each CA must attend all classes or coordinate with the professor (Greg!) if the CA is to miss a class. If a CA misses a class, the aforementioned bonus reduces by 0.50% per miss. Each CA will have roughly ten classmates for which he/she is responsible. If a student misses a class and fails to receive any handouts from the missed class, that student must obtain any missed materials from his/her assigned CA. Or, if a student arrives late for a class, the student must find his/her CA to ensure that the late-arriving student receives any materials that were already handed out. (Please note that all lecture notes will be available on the course webpage, in case you do not want to wait to get the materials from your Lead Administrator. Other materials besides the lecture notes, however, may or may not be posted on the course webpage. Thus, when you miss a class, you are wise to check with the Lead Administrator ... or with another reliable classmate.)

Reading Assignments:

Before each class, you will want to casually look over the chapter(s) that is (are) scheduled for coverage. Reading assignments for each lecture are posted in the course schedule (on the final page). If we can remain on schedule, we will follow the course sequence as shown on the final page. If you take the time to master and solve these problems correctly, you can be assured that (i) you are learning the material and (ii) you are well-prepared to do well on the exams.

Appointments:

I am available within a rolling 4-day window for making appointments. If you want to meet with me outside of normally scheduled office hours, please email me *no more than 4 days in advance* of your desired meeting time. I should be able to accommodate you, provided (obviously) that my schedule is open. Also, please always feel welcome to stop by my office unannounced – as long as you understand that either I might not be there or I might be working on something too urgently to be interrupted.

Grading Policy:

Your grade will be based largely upon your performance on four exams, including a comprehensive final exam that will be taken in common, at the exact same time, by all students who are enrolled in all of the various sections of Fin3320 this semester. Exam dates are listed in the Course Schedule near the end of the syllabus. Please note that the exams are weighted differently. **ROUNDING:** Before calculating the final overall grade, each score (Exams 1, 2, and 3, and Projects) is rounded to the nearest 100th of a percent. Final grades are also rounded to the nearest 100th of a percent. **SCALE:** A grade $\geq 93.33\%$ is an A, a grade $< 93.33\%$ and $\geq 90.00\%$ is an A–, a grade $< 90.00\%$ and $\geq 86.67\%$ is a B+, a grade $< 86.67\%$ and $\geq 83.33\%$ is a B, a grade $< 83.33\%$ and $\geq 80.00\%$ is a B–, a grade $< 80.00\%$ and $\geq 76.67\%$ is a C+, and so on.

<u>Graded Item(s)</u>	<u>Weight</u>	<u>Graded Item(s)</u>	<u>Weight</u>
Exam 1	20.0%	Homework Assignments	7.5%
Exam 2	20.0%	<i>Excel</i> Project	7.5%
Exam 3	20.0%	Final Exam	25.0%

The calculation of your grade then is simply a weighted average: $20.0\% \times \text{Exam-1 Score} + 20.0\% \times \text{Exam-2 Score} + 20.0\% \times \text{Exam-3 Score} + 25.0\% \times \text{Final-Exam Score} + 7.5\% \times \text{Homework Score} + 7.5\% \times \text{Project Score}$. All scores must be reported on a basis of 100. Obviously, an exam score of 84 out of 100 is easy; your score on a scale of 100 is an 84.00%. However, if you score, say, 17.5 out of 20.0 on the Project, your score certainly isn't 17.5%. You need to divide the 17.5 by 20.0 and then multiply by 100 – your Project score would be an 87.50%.

Grading Policy (continued)

In determining your final grade, I have the option to make up to a 1.50% readjustment (only upward, not downward) on the basis of miscellaneous factors such as participation, interest shown in the course, steady improvement in exam scores, and so forth. Any adjustment will be made in increments of 0.50% and will be made sparingly, reserved for only the students deemed most exceptional in terms of the noted criteria.

Exams Policy:

Exams are closed-book, closed-notes. Laptops are not allowed. The only kind of calculator that is allowed is the Texas Instruments calculator described near the bottom of page 1 of the syllabus. You must also each bring your Comet Card for proper identification during each exam.

I do not allow make-up exams. If you are to miss an exam due to acceptable circumstances, you must notify me prior to your absence, and I will explain your options to you. I reiterate: I do not allow you to make up for a missed exam if you do not notify me of your absence beforehand. On the other hand, if you do proactively approach me, I will provide you with a fair, reasonable option in the event that you have to miss an exam.

Also, please note the date of the comprehensive Final Exam. You must take the Final Exam as scheduled.

Uniform Final Exam:

A common final exam will be given for all students across all sections of this Fin3320 course as indicated on schedule. Our section will be assigned a specific time slot by the registrar's office and I will notify you of the timeslot when it is known. You cannot make up this exam if you miss it. At this comprehensive final exam, you will not be allowed to bring backpacks, bags, books, cellphones, laptops, notebooks, scratch paper, or calculators that store text (such as graphing calculators). The only calculators permitted will be the Texas Instruments BA II Plus (or Plus Professional). You will have to bring a pencil, an eraser, an acceptable financial calculator, a Scantron form 882-E, and a photo ID (UTD Comet Card (preferred), state driver's license, or passport).

Students will not be able to take the exam without a photo ID. Emergencies such as hospitalization, car wrecks on the way to the test, etc., will have to be substantiated by supporting documents and in these cases the students will receive an incomplete in the course and will take the exam during the next scheduled final exam for Fin3320. There will be no exceptions. The exam will be in Davidson Auditorium JSOM 1.118. See the final page of the course syllabus for the date and time of this exam.

Using McGraw-Hill's Connect System for Completing Homework Assignments:

The web address for my sections of this course for *Connect* is: <http://connect.mheducation.com/class/durham-fin3320-fa14>. For each chapter, you will be completing a set of selected end-of-chapter problems that will constitute your homeworks for the semester. We will work similar exercises to all assigned problems in class. Students are required to complete these homework sets on the McGraw-Hill *Connect* system.

Policies for Homeworks:

The *Connect* system should be fairly self-explanatory, in terms of the rules that govern the homework assignments. Each question is worth 10 points and I believe that the total number of points is 700 across the semester. Please understand that I could have just as easily made each question worth 1 point for a total of 70 points. The way that your final, overall homework score will be calculated will simply be to divide your points achieved by 700. (For example, a 532/700 is a 76.00% -- the 76.00% is what you should be concerned about.)

Policies for Project:

A portion of your grade will be based on your performance on one *Excel*-based project that will be assigned during the semester. You have the option to work in groups of 3 or 4 people (but no more than 3). You shall submit only one project for the entire group – everyone in the group will receive the same grade for the project. Please note: If a student's name appears on more than one submission for a given project, that student will receive only 1/4 credit of whichever score is higher among the multiple projects on which his/her name appears.

The project must be turned in via e-mail, on the due date between 6am & 10pm (no earlier, no later). I will accept late projects up through 3 school days after the due date, submitted only via e-mail, between 8am & 5pm on a school day. (School days \equiv Monday through Friday.) I will assign only 80% credit, though, if the project is submitted one day late; I will assign only 50% credit, though, if the project is submitted two or three days late. I will make no exceptions to these rules.

Project Submission, Construction, & Presentation:

- NAMING: Please name your file "Fin3320-ExcelProj-Fa14-AaaBbbCcc" where Aaa represents the first 3 letters of one group member's last name, Bbb represents the first 3 letters of the second group member's last name (if applicable), and Ccc represents the first 3 letters of the third group member's last name (if applicable). Please do not put any spaces or underscores in the filename. Here is an example filename for Garcia, Wier, and Lu's project: Fin3320-ExcelProj-Fa14-GarWieLu.
- SUBMITTING: Please e-mail each submission to me at greg.durham@utdallas.edu. Please make the subject line "Fin3320 Excel Project Attached". You do not need to write anything in the body of your e-mail, unless you want to. ☺
- CONSTRUCTION: Please use cell references, not numbers, in constructing all formulas. For example, if you are multiplying 3 by 5 do not enter "15" (the result) and do not enter "=3*5". Instead, enter "=C8*C9", say, where C8 contains the number 3 and C9 contains the number 5.
- DOCUMENTATION: Spreadsheets must be adequately documented and annotated. I.e., you must explain on the spreadsheet itself (usually by using explanatory columns, footnotes, or both, or even a running narrative of what you are doing), the means of computation when they are not immediately clear to a relatively knowledgeable reader.

Academic Integrity:

The faculty expects a high level of responsibility and academic honesty from its students. Academic responsibility and honesty are important and any departures and/or violations could severely affect your grade and university status. For additional information, please see <http://policy.utdallas.edu/utdsp5003>.

Withdrawals:

The administration of this institution has set deadlines for withdrawal of any college-level courses. These dates and times are published in that semester's course catalog. Administration procedures must be followed. The student is responsible for fulfilling the withdrawal requirements associated with any class. In other words, I cannot drop or withdraw any student. You must do the proper paperwork to ensure that you will not receive a final grade of "F" and receive a "W" instead in a course if you choose not to attend the class once you are enrolled. I will not announce withdrawal deadlines or any other enrollment-related dates.

University of Texas at Dallas Policies and Procedures for Students:

The University of Texas at Dallas provides a number of policies and procedures designed to provide students with a safe and supportive learning environment. Brief summaries of the policies and procedures are provided for you at <http://go.utdallas.edu/syllabus-policies> and include information about technical support, field trip policies, off-campus activities, student conduct and discipline, academic integrity, copyright infringement, email use, withdrawal from class, student grievance procedures, incomplete grades, access to Disability Services (Office of Student AccessAbility – OSA), religious holy days, and avoiding plagiarism. You may also seek further information at these sites: <http://www.utdallas.edu/deanofstudents>, <http://www.utdallas.edu/deanofstudents/policies>, and <http://www.utdallas.edu/studentaccess>.

Closing Comments:

Let's have a fun, entertaining quarter, you guys...while trying to learn quite a few useful concepts along the way. I am here to help you in any way I can. A solid infrastructure of resources and support is available to you, so I encourage you to take advantage of it!!

COURSE SCHEDULE for Monday/Wednesday section:

<u>Dates:</u>	<u>Monday</u>	<u>Wednesday</u>	<u>Homework Due Dates</u>
Aug.25,27	Introduc'n, Ch.2	Chs.2,3	Ch.-2 HW due Sep.8
Sep.1,3	(Labor Day)	Ch.3
Sep.8,10	Ch.3	Ch.5	Ch.-3 HW due Sep.11
Sep.15,17	Chs.5,6	Ch.6	Ch.-5 HW due Sep.17
Sep.22,24	Ch.6, Review	Exam 1	Ch.-6 HW due Sep.25
Sep.29,Oct.1	Ch.8	Ch.8	Ch.-8 HW due Oct.6
Oct.6,8	Ch.7	Ch.7	See <i>Connect</i> for due date for Ch.-7 HW
Oct.13,15	Ch.9	Ch.9
Oct.20,22	Chs.9,10	Ch.10	See <i>Connect</i> for due date for Ch.-9 HW
Oct.27,29	Ch.10, Review	Exam 2	See <i>Connect</i> for due date for Ch.-10 HW
Nov.3,5	Ch.11	Chs.11,13	See <i>Connect</i> for due date for Ch.-11 HW
Nov.10,12	Ch.13	Chs.13,14	See <i>Connect</i> for due date for Ch.-13 HW
Nov.17,19	Ch.14	Ch.12	See <i>Connect</i> for due date for Ch.-14 HW No Homework from Ch.12
Nov.24,26	(Fall Break)	(Fall Break)
Dec.1,3	Review	Exam 3
Dec.8,10	Review for Final	Review for Final

Dec. 13: Final Exam: Comprehensive Exam – Davidson Auditorium, 11:00am-1:45pm