Fin3320 Business Finance – Spring 2015
Instructed by Professor **Greg Durham**, PhD

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Office Hours: Mon. 11:00am-12:30pm, Wed. 11:00am-12:30pm,
& Tue. 9:00-11:00am, and by appointment on Tue.,
Wed., or Thu. (please see note below)

Course Prerequisites:
The prerequisite courses for Fin3320 are Math1326, Math2333 (or OpRe3333), Acct2301, Acct2302, & MIS 3300. This Fin3320 course also 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.

Calculators:
For the exams for this course, you are allowed to use any calculator that you prefer <u>except</u> <u>for</u> (i) programmable calculators, (ii) calculators that reside on smart phones, or (iii) any calculator that has wireless access to the internet. An exam proctor will check your calculator before (or during) each exam to be sure that it complies with this rule; if the calculator is not in compliance, the proctor has the authority to remove your calculator for further use on that exam. Please do not risk having to incur the consequences. If you plan to use an unfamiliar, obscure type of calculator, you should check with your instructor any time before the actual exam date to avoid any po-

Calculators (continued)

tential complications during the actual exam.

The time-value-of-money material in this course will be taught to you in two ways: (1) using five fundamental math equations and (2) using financial-function keys on a calculator. If you master either approach, you are perfectly well-equipped to be successful in this course; mastering both approaches makes you even more competent. The course instructor is only required to be fluent in the financial functions for any of the calculators that are made by Texas Instruments and contain financial functions (e.g., TI BA II Plus, TI-83 Plus, TI-84 Plus, TI-86, etc.). If you choose to use the financial functions on any calculator that is not of the Texas Instruments brand, you are required to learn these keys on your own. Any common calculator will have a user's manual, as well as tutorials on *YouTube* for how to use it.

SUGGESTION: If you use a TI BA II Plus (or Plus Professional), you will be wise to change the order of operations on your calculator, so that the keystrokes "2 + 3 x 4" yield 14 (and not 20 – ha!) or so that "6 + 3 ^ 2" yields 15 (and not 81!). Also, you also almost certainly want to re-program your calculator so that it reports results to five or six decimals (as opposed to two).

<u>Text</u>, <u>Lecture Notes</u>, <u>& Supplementary Notes</u>:

The required text is S. Ross, R. Westerfield, & B. Jordan, *Fundamentals of Corporate Finance*, 10th Ed., Mc-Graw-Hill Companies, Inc. [<u>with</u> a *Connect* access code that is <u>required</u> for this course]. If you purchase *Connect Plus* , you can get a Connect access code plus a digital copy of the textbook. You <u>do</u> 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, you will <u>definitely</u> want to bring a copy of the <u>lecture</u> <u>notes</u> so that each person may have one copy. These lecture notes will all be posted on *eLearning*, in folders called "Lecture Notes for Module 1", "Lecture Notes for Module 2", etc. I will follow these lecture notes closely in the classroom and you really ought to have the notes with you, so that you can take supplementary notes for a given without having to scramble and try to copy down everything contained in the slide! Also, I will occasionally hand out supplementary notes, reading materials, example problems, etc. If these materials were created well before a given class, they will appear in the same folders as where you'll find the lecture notes. You'll want to bring these materials to class. In the event that I create a resource at the last minute, I will bring enough copies to class for everyone and I will then post the resource to *eLearning* as my schedule allows.

Connect: The web address for all of my sections of this Fin3320 course for *Connect* is: connect.mheducation. com/class/durham-fin3320-sp15. For each chapter (except for chapters 10 & 12), 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. As shown below, homework constitutes 8.0% of the course grade; students are required to complete these homework sets on the McGraw-Hill Connect system.

<u>Reading Assignments</u>:

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.

<u>Appointments</u>:

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.

<u>Grading Policy</u>:

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, as shown in the table that follows. ROUNDING: Before calculating the final overall grade, each score (Exams 1, 2, and 3, and the Project) 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.

Grading Policy (continued)

Graded Item(s)	Weight	Graded Item(s)	Weight
Exam 1	18.0%	Homework Assignments	8.0%
Exam 2	18.0%	*Excel* Project	7.0%
Exam 3	18.0%	Final Exam	25.0%
Max. Score (Exams 1,2,3)	6.0%		

The calculation of your grade then is simply a weighted average: 18.0% x Exam-1 Score + 18.0% x Exam-2 Score + 18.0% x Exam-3 Score + 6.0% x Max Score + 25.0% x Final-Exam Score + 8.0% x Homework Score + 7.0% x 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 85.00%.

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 <u>not</u> allowed. The only kinds of calculator that are allowed are described earlier in the "Calculators" section 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 <u>prior</u> <u>to</u> 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.

Curving: For any of the three mid-term exams, if the average score is less than 78.5 (out of 100.0), I reserve the right to upwardly revise every student's score by the difference between the class average on the exam and 78.5. Any upward revision will occur in parallel, across all students, in half-point increments until the 78.5 average is met or exceeded. Any upward shifts on the high end of the range of grades cannot result in any exam score that is greater than 100.0. Scores on the uniform final exam (described next) will be curved at the aggregate level, so that I will not curve the scores once they are delivered to me.

Uniform Final Exam:

A <u>common</u> <u>final</u> <u>exam</u> 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 <u>cannot</u> make up this exam if you miss it (except as described in the following paragraph). At this comprehensive final exam, you will not be allowed to bring backpacks, bags, books, cellphones, laptops, notebooks, or scratch paper. Please see the section above titled "Calculators" for information about what types of calculators are permitted for this exam. You will have to bring a pencil, an eraser, an acceptable financial calculator, a Scantron form 882-E, and a photo ID (e.g., UTD Comet Card (preferred), state driver's license, or passport).

Students will not be able to take the exam without a photo identification. If a student is to miss an exam in the event of an medical emergency, a car accident, or a religious holy day, the student must notify his/her instructor by e-mail or telephone <u>before</u> the final exam begins. Last-minute emergencies such as hospitalization, car wrecks on the way to the exam, et cetera, will have to be substantiated by supporting documents and in these cases the students will receive an incomplete grade (an "I") in the course and will take the exam in a common-hour sitting early in the following semester. 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.

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 (no more, no fewer). You shall submit only <u>one</u> 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. If you work

Policies for Project (continued)

in a group of 2, your score will be reduced by 25%. If you work alone, your score will be reduced by 40%. Please understand that groupwork is an important part of an undergraduate curriculum in any business school; accrediting bodies are interested in knowing whether our students have experience with, and work well while, working in groups. Note: The project will entail some extra-credit work, so as to partly offset these penalties.

The project must be turned in <u>via</u> <u>e-mail</u>, <u>on</u> the <u>due</u> <u>date</u> <u>between</u> <u>6am</u> <u>&</u> <u>10pm</u> (<u>no</u> <u>earlier</u>, <u>no</u> <u>later</u>). 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 ≡ Monday through Friday, not counting holidays that are reported in the official UTD Academic Calendar.) 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.

<u>Project Submission</u>, <u>Construction</u>, <u>& Presentation</u>:

• NAMING: Please name your file "Fin3320-ExcelProj-Fa14-AaaBbbCccDdd" 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, Ccc represents the first 3 letters of the third group member's last name, and Ddd represents the first 3 letters of the fourth group member's last name (if applicable). Please do <u>not</u> put any <u>spaces</u> or <u>underscores</u> 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. ☺

• FORMATTING: For any cells that contain dollar amounts, please report them without dollar signs and rounded to two decimal places. For any cells that contain percentages, please report them as percentages to two decimal places.

• 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.

<u>University of Texas at Dallas Policies and Procedures for Students</u>:

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.

<u>Academic Integrity</u>:

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.

<u>Withdrawals</u>:

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 <u>not</u> announce withdrawal deadlines or any other enrollment-related dates.

<u>Closing Comments</u>:

Let's have a fun, entertaining semester, students … 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:

Dates:	Monday	Wednesday	Homework Due Dates
Jan.12,14	Introduc'n, Ch.2	Ch.2	Ch.-2 HW due Jan.21
Jan.19,21	(Martin Luther King Day)	Chs.2,3	…..
Jan.26,28	Ch.3	Ch.5	Ch.-3 HW due Jan.29
Feb.2,4	Chs.5,6	Ch.6	Ch.-5 HW due Feb.5
Feb.9,11	Ch.6	**Exam 1**	Ch.-6 HW due Feb.12
Feb.16,18	Ch.8	Ch.8	Ch.-8 HW due Feb.23
Feb.23,25	Ch.7	Ch.7	Ch.-7 HW due Mar.2
Mar.2,4	Ch.9	Ch.9	…..
Mar.9,11	Chs.9,10	Ch.10	Ch.-9 HW due Mar.13
Mar.16,18	(Spring Break)	(Spring Break)	…..
Mar.23,25	Ch.10	**Exam 2**	Ch.-10 HW due at beginning of Exam 2
Mar.30,Apr.1	Ch.11	Chs.11,13	See *Connect* for due date for Ch.-11 HW
Apr.6,8	Ch.13	Chs.13,14	See *Connect* for due date for Ch.-13 HW
Apr.13,15	Ch.14	Chs.14,12	See *Connect* for due date for Ch.-14 HW
Apr.20,22	Ch.12	**Exam 3**	No Homework from Ch.12
Apr.27,29	Review for Final	Review for Final	…..

May 9: **Final Exam**: **Comprehensive Exam – Davidson Auditorium**, **11**:**00am-1**:**45pm**