

Fin3320 Business Finance – Summer 2015
Instructed by Michelle P. Connell, CFA

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**Office Hours: Mon. 6pm-8pm,
& Tue. 5:00pm-6pm (held by T.A.),
and by appointment.**

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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 except for (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 " $2 + 3 \times 4$ " yield 14 (and not $20 - \text{ha!}$) or so that " $6 + 3 \wedge 2$ " 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).

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. The following are your four textbook options:

1. All digital: Includes access to SmartBook and Connect. Available directly from McGraw Hill. ISBN#9780077511326. Estimated cost is \$125.
2. All digital, as in the first option, but with the option to purchase a loose-leaf textbook. Available through McGraw Hill as well. The additional loose-leaf textbook adds \$40 to your costs.
3. All digital along with loose-leaf book (same as option 2), but purchased thru UT Dallas Bookstore. ISBN#9780078093876. Estimated cost is \$275.
4. All digital along with the traditional hard-cover text from Bookstore. ISBN#9781259672484. Estimated cost is \$328.

For each chapter, you will definitely want to bring a copy of the lecture notes 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.

*******You do need Connect this semester. Connect is on-line software that allows students to submit homework assignments check your work on-line. The web address for all of my sections for this Fin3320 course for Connect will be announced as soon as possible.** 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.

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.

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

<u>Graded Item(s)</u>	<u>Weight</u>	<u>Graded Item(s)</u>	<u>Weight</u>
Exam 1	19.0%	Homework Assignments	8.0%
Exam 2	19.0%		
Exam 3	19.0%	Final Exam	27.0%
Max. Score (Exams 1,2,3)	8.0%		

The calculation of your grade then is simply a weighted average: $19.0\% \times \text{Exam-1 Score} + 19.0\% \times \text{Exam-2 Score} + 19.0\% \times \text{Exam-3 Score} + 8.0\% \times \text{Max Score} + 27.0\% \times \text{Final-Exam Score} + 8.0\% \times \text{Homework Score}$. All scores must be reported on a basis of 100.

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.

Policy for Homework (HW) Scoring:

To expect any student to complete every HW assignment without penalty is unreasonable, in my opinion. I thus employ the following rule. The total points possible on the semester's worth of HW assignments are *roughly* 640. (I didn't take the time to go through all 11 assignments and add up the points; in addition, the total points changes very slightly from semester to semester). ***Your homework score will be calculated out of a base that will be 120 points lower than whatever the exact total is.*** If the total points possible equals 640 as I have guessed, your HW scores will be graded on a base of 520. If the total is, say, 610, the base will be 490, and so on. What this rule essentially accomplishes is that it allows any student either to skip a couple of assignments altogether or to complete all of the assignments with multiple sub-par performances – in either case with no penalty.

The maximum points that you can achieve will be equal to the base. In other words, you cannot obtain a HW score that is greater than 100% of the base – to do that doesn't seem fair to me. I prefer to just give each and every one of you the option to skip an assignment or two ... when life gets challenging and busy on other fronts besides in Fin3320.

Exams Policy:

Exams are closed-book, closed-notes. Laptops are not 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 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.

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 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 (except as described in the following

paragraph). At this comprehensive final exam, you will not be allowed to bring backpacks, bags, books, cell-phones, 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 before 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.

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>.

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.

Closing Comments:

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: All Classes are meet on Tuesday evening, 6-10PM

<u>Dates:</u>	<u>First Half</u>	<u>Second Half</u>	<u>Homework Due Dates</u>
June 2nd	Introduc'n, Ch 2 & 3		Ch.-2 HW due June 9
June 9th	Ch 3, 5 & begin Ch 6		Ch. 3 & 5 HW due June 16
June 16 th	Exam 1 (75 min)	Ch 6	Ch. 6 HW due June 23
June 23	Ch.8	Ch.7	Ch. 8 HW due June 30
June 30	Ch.7	Ch 9	Ch. 7 HW due July 7
July 7	Ch. 9	Ch. 10	Ch. 9 & 10 due before Exam 2
July 14	Exam 2 (75 min)	Ch. 11	See <i>Connect</i> for due date for Ch.11 HW
July 21	Ch.13 & 14		See <i>Connect</i> for due date for Ch.13 HW
July 28	Ch 14 & 12		See <i>Connect</i> for due date for Ch.14 HW
August 4 th	Exam 3 (75 min)	Review for Final	No Homework from Ch.12
August 8th: Final Exam: Comprehensive Exam – Davidson Auditorium 8-10:35 AM			