

FIN6320

Prof. Owens

Summer, 2009

Classroom Location: Fine Arts 109

Office Location: Old Fine Arts Building Room 210-A

Office Hours: Mon- Thur. 10:00 – 11:30 or by appointment

Office Phone: 651-2519

E-Mail: jowens@wtamu.edu

Homepage: <http://wtfaculty.wtamu.edu/~jowens/FIN6320/home6320.htm>

Other: jkowens.com

Last Updated: May 21, 2009. *This Syllabus is a dynamic document. Elements of the course structure (e.g., dates and topics covered, but not policies) may be changed at the discretion of the professor.*

COB Mission Statement

The mission of the College of Business is to provide high quality undergraduate and graduate business education with a global perspective and ethical awareness. We accomplish this through emphasis on excellence in teaching, which is strengthened by faculty scholarship and supported by professional service.

COB Learning Goals

- **Functional Business Knowledge:** Students will examine the core concepts within each business discipline; accounting, finance, marketing, management, statistics, and computer information systems.
- **Communication Skills:** Students will demonstrate a competency in writing, speaking, and technology communication.
- **Micro Business Environment Skills:** Students will be able to analyze business situations, to include integrating the roles of functional areas, using information and logic to make cross functional recommendations for problem solving and decision making. Students will be able to analyze non-market issues occurring at the intersection of a business and the society it operates in, to make sensible recommendations for managing such intersections, and to do both consistent with good business ethics. Focus on critical thinking and ethical applications.
- **Macro Business Environment Skills:** Students will develop an awareness of domestic issues, international issues, cross-cultural issues, and teamwork applications. Focus on global, multicultural, and teamwork applications.

Course Description

Our classroom efforts will be directed toward understanding concepts and analytical techniques appropriate to the financial management of a non-financial corporation. The course relies heavily upon a lecture/small problem format and your efforts to work the assigned problems, to ask questions in class and to take an active role in the learning process will be essential to an understanding of the material. The subject matter is central to the overall management of any firm and future courses in the College of Business presume a strong grasp of the fundamentals of this subject. Consistent attendance and active class participation will be rewarded both in the final grade and in your understanding since our discussions will likely range beyond the textual material.

Course Objectives

- Students will demonstrate knowledge of the role of the finance function of the firm.
- Students will demonstrate knowledge of financial markets and efficiency.
- Students will demonstrate knowledge of time value of money.
- Students will demonstrate knowledge of stocks and bonds and their valuation.
- Students will demonstrate knowledge of capital budgeting and the cost of capital.
- Students will demonstrate knowledge of risk, return, and diversification.
- Students will demonstrate knowledge of financial statement analysis.
- Students will demonstrate knowledge of international markets and exchange rates and how exchange rates reflect changes play in the movement of capital flows between countries.

Map from COB Learning Goals to Objectives for this course

Learning Outcome:

- Students will demonstrate knowledge of time value of money. Explicit learning outcomes are to: (1) Analyze and solve the calculation for the value of a single sum; (2) Analyze and solve the calculation for the value of an annuity; (3) Assess the relationship between rates of return and the value of cash flows; (4) Summarize the compounding and discounting process; (5) Analyze and solve the calculation of a deferred annuity; (6) Analyze and solve the calculation of a perpetuity; (7) Analyze and solve the calculation of the effective interest rate; and (8) Assess the role of time value of money on personal financial planning.
- Students will demonstrate knowledge of stocks and bonds. Explicit learning outcomes are to: (1) Generalize the features of a bond; (2) Calculate the value of a bond; (3) Assess factors affecting the value of a bond; (4) Synthesize the relationship between interest rates and price of a bond; (5) Generalize the features of a stock; (6) Calculate the value of a stock; (7) Assess the role of dividends in the value of a stock; (8) Assess the role of the P/E ratio in the value of a stock; and (9) Synthesize the relationship between risk, return and the price of a stock.
- Students will demonstrate knowledge of capital budgeting and the cost of capital. Explicit learning outcomes are to: (1) Analyze and solve the components costs of capital; (2) Analyze and solve for the net present value; (3) Analyze and solve for the internal rate of return; (4) Analyze and solve for the profitability index; (5) Analyze and solve for the payback period for a project; (6) Distinguish between the reinvestment rates for the net present value and the internal rate of return; (7) Assess which cash flows are sunk costs and should be ignored; (8) Analyze the cash flows to be included in the calculation of initial outlay, annual cash flows, and terminal value; (9) Analyze the cash flows to be included in the buying and selling of assets; (10) Analyze the depreciation effect of buying and selling assets and the effect on cash flows; (11) Analyze the effect of unequal time periods on the capital budgeting process; and (12) Analyze and solve which projects are viable for a firm especially given conflicting data.

- Students will demonstrate knowledge of risk, return, and diversification. Explicit learning outcomes are to: (1) Evaluate the risk of a financial asset and the different measures of risk; (2) Compare and contrast market and firm-specific risks; (3) Assess what Beta is and its limitations as a measure of risk; (4) Analyze and solve for the required return using the CAPM model; (5) Synthesize the role diversification plays in reducing portfolio risk; (6) Assess the limitations in the market portfolio; and (7) Evaluate ways to manage the risk to a project or financial asset.
- Students will demonstrate knowledge of financial statement analysis. Explicit learning outcomes are to: (1) Evaluate the balance sheet, income statement and cash flow statement for a firm; (2) Analyze and solve the financial ratios; (3) Evaluate the best practices of working capital management; (4) Assess the importance of incremental cash flows in a financial statement analysis; (5) Analyze and solve the cash position of a firm; and (6) Analyze and solve for the future financing needs for a firm.

Terms of Use

A student's continued enrollment in this course signifies acknowledgment of and agreement with the statements, disclaimers, policies, and procedures outlined below and elsewhere in the WTClass container.

Technology Requirements

All technological requirements for the successful completion of this course are the responsibility of the student, including access to a working computer with broadband internet connection and state-of-the-art security. The student is responsible for all technological problems not related to WTAMU, including but not limited to equipment failures, power outages, and internet breakdowns. Furthermore, students are responsible for all necessary technical and operational skills for completing this course, and for being familiar with WTClass (the Angel Learning System) both in a general sense and in a specific sense as pertaining to this course and any materials stored within. The professor is not responsible for any technical matters related to WTClass. Students must contact WTClass if they have problems accessing and/or using Angel.

Viewpoints Disclaimer

The views expressed in this document, web-based course materials, and/or classroom presentations are those of the professor and do not necessarily represent the views of West Texas A&M University, its faculty and staff, or its students. Views expressed by students are likewise those of the person making such statements.

External Websites Disclaimer

Neither the professor, the College of Business, nor WTAMU are responsible for the content of external websites discussed in the classroom and/or linked to via online course materials, emails, message boards, or other means. Referred websites are for illustrative purposes only, and are neither warranted nor endorsed by the professor, College of Business, or WTAMU. Web pages change frequently, as does domain name ownership. While every effort is made to ensure proper referencing, it is possible that students may on occasion find materials to be objectionable for reasons beyond our control.

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Repeating Course Work

Students are charged a fee for any course attempted for a third or subsequent time at WTAMU other than a non-degree credit developmental course or exempted courses.

Disabilities

West Texas A&M University seeks to provide reasonable accommodations for all qualified persons with disabilities. This University will adhere to all applicable federal, state, and local laws, regulations, and guidelines with respect to providing reasonable accommodations as required to afford equal educational opportunity. It is the student's responsibility to register with Disability Support Services and to contact the faculty member in a timely fashion to arrange for suitable accommodations.

Scholastic Dishonesty

It is the responsibility of students and instructors to help maintain scholastic integrity at the University by refusing to participate in or tolerate scholastic dishonesty. Commission of any of the following acts shall constitute scholastic dishonesty. This listing is not exclusive of any other acts that may reasonably be said to constitute scholastic dishonesty: acquiring or providing information for any assigned work or examination from any unauthorized source; informing any person or persons of the contents of any examination prior to the time the examination is given in subsequent sections of the course or as a makeup; plagiarism; submission of a paper or project that is substantially the same for two courses unless expressly authorized by the instructor to do so; submission of a paper or project prepared by another student as your own. You are responsible for being familiar with the university's Academic Integrity Code .

Physical or Educational Access

West Texas A&M University seeks to provide reasonable accommodations for all qualified persons with disabilities. This University will adhere to all applicable federal, state and local laws, regulations and guidelines with respect to providing reasonable accommodations as required to afford equal educational opportunity. It is the student's responsibility to register with Disability Support Services and to contact the faculty member in a timely fashion to arrange for suitable accommodations.

Evacuation Statement

If you receive notice to evacuate the building, please evacuate promptly but in an orderly manner. Evacuation routes are posted in various locations indicating all exits, outside assemble area, location of fire extinguishers, fire alarm pull stations and emergency telephone numbers (651.5000 or 911). In the event an evacuation is necessary: evacuate immediately do not use elevators; take all personal belongings with you; report to outside assembly area and wait for further information; students needing assistance in the evacuation process should bring this to the attention of the instructor at the beginning of the semester.

Course Objectives:

The material is presented from the perspective of a senior financial manager with emphasis on the theory and practice of Corporate Finance. We will address a number of broad financial policy issues in the course that have application to virtually every firm without regard to size or ownership structure. Due to the difficulty of addressing many of the individualized personal/professional objectives of the small firm; our discussion will primarily concern the larger, publicly held firm. This is principally a convenience since data regarding management decisions and the impact of these decisions on share prices of publicly held companies are readily available. Therefore, we can objectively address finance issues without concern for the personal issues common to the

owner/manager small firm format. The goal is for you to think about financial management from a conceptual perspective so that you have a structure upon which to "hang" new, innovative applications that will arise in the continuing development of our economy. We necessarily have to perform numerical analysis in order to better grasp conceptual issues, but the focus is primarily upon the concepts rather than the analytical techniques.

Course Logistics:

The course utilizes the text; **Principles of Corporate Finance** (Ninth Edition) by Richard A. Brealey , Stewart C. Myers and Franklin Allen. Previous users have commented on the comprehensive nature and difficulty of the text. It is the best-selling MBA level Finance text in the world and the quality is outstanding. However, it requires considerable effort to comprehend everything presented and some readers may find it challenging. Given the cost of these texts, my preference is to provide access to the highest quality material available and for you to have a text you can keep for use in future years. There is a CD-ROM packaged with the text that has many useful learning aids although it is not required for this course. The text website is another excellent source of information and help. You should be a regular reader of the Wall Street Journal. You can sign up for the semester at the student rate offered by Dow Jones or obtain access to a copy on a daily basis through some other means. The student rate is approximately 60% of the usual commercial rate. I make frequent reference to material from the WSJ and will assume you can read the referenced material and are prepared to incorporate it in the context of the topic being addressed. Copyright restrictions preclude my providing this material so you will need daily access to either a paper copy or the WSJ Interactive Edition. I assume you own and can operate a financial calculator as well as a spreadsheet program with financial functions. The calculators cost between \$30.00 and \$100.00 and you need one in your daily life so acquire and use it for this course. I have no preference as to make or model so long as it is capable of performing the standard time value functions including the computation of a yield or return on investment. You might also enjoy access to an EXCEL compatible spreadsheet since some of the chapter problems are less tedious if put in a spreadsheet rather than being done by hand.

I will provide solutions to the suggested practice questions from the text chapters at the beginning of class following their assignment. I strongly encourage you to work the problems without first referencing the solutions. Then, you can check your efforts using the provided solutions which will help prepare you for problems in the two exams. Answers for some chapter problems are available in the back of the text although they do not provide much help in the way of methodology. There will be a mid-term and a final exam which are in multiple choice format with 50 questions on each exam involving both computations (problems) and concepts (definitions and interpretations of text material). The two examinations will each count 40% of your semester grade. I have posted sample questions, with answers, for each exam on the course support site. There will be additional points available through two sets of homework grades plus your class participation and attendance

June 1, 2009

Theory of the Firm

Chapters 1 and 35 in Brealey, Myers and Allen (BMA)

Corporate Governance

Chapters 2 and 34 in BMA

Practice Questions 2-11, 2-13, 2-14 and 2-17

June 3, 2009

Analysis and Planning

Chapters 29 through 31 in BMA

Practice Questions 29-24, 29-35, 29-36, 30-16, 30-19, 30-21, 30-22, 30-24, 30-27, 31-8, 31-11 and 31-12

June 8, 2009

Time Value of Money

Chapters 3, 4 and 5 in BMA

Practice Questions 3-13, 3-15, 3-16, 3-19, 4-15, 4-16, 4-20, 4-22, 5-16, 5-25 and 5-26

Capital Budgeting

Chapters 6 and 7 in BMA

Practice Questions 6-8, 6-12, 6-13, 6-15, 7-10, 7-14, 7-16, 7-19 and 7-26

June 10, 2009

Risk and Return

Chapters 8 through 10 in BMA

Practice Questions 8-10, 8-14, 8-22, 9-10, 9-11, 9-15, 10-9, 10-10, 10-15 and 10-21

June 15, 2009

Mid-Term Exam: Chapters 1-10 and 29, 30, 31, 34 and 35

June 17, 2009

Issues in Capital Budgeting

Chapters 11 through 13 in BMA

Practice Questions 11-11, 11-15, 11-18, 12-8, 12-10, 12-11, 13-15 and 13-18

June 22, 2009

Financing

Chapters 14, 15, 16, 24, 25 and 26 in BMA

Practice Questions 14-10, 14-12, 14-15, 15-6, 15-9, 16-16, 16-17, 25-13, 25-14, 25-23 and 26-18

Cost of Capital

Chapters 17 through 20 in BMA

Practice Questions 18-11, 18-12, 18-19, 18-22, 19-15, 19-24, 20-11, 20-14, 20-15, 20-18 and 20-22

June 24, 2009

Derivatives

Chapters 21 through 23 in BMA

Practice Questions 21-12, 21-16, 21-19, 21-22, 21-25, 22-10, 22-12, 22-14, 22-15, 23-9 and 23-14

Risk Management

Chapter 27 and 28 in BMA

Practice Questions 27-16, 27-18, 27-20, 27-21, 27-22, 27-24, 28-11, 28-12, 28-18 and 28-19

June 29, 2009

Mergers and Acquisitions

Chapters 32 and 33 in BMA

Practice Questions 32-9, 32-12, 32-13

July 1, 2009

Final Examination: Chapters 11 through 28 plus 32 & 33