



FE 722: Financial Management

Spring 2019 Preliminary Schedule (Tentative)

The following table describes the material that we will cover during each class and the required readings from the book (these should be completed before each class), as well as the due dates of homework assignments and data cases. We might deviate from this schedule if we need to spend more or less time than expected on certain subjects.

| Session | Date | Topic and associated Handout/Slidedeck  | Reading Assignments (Book Chapters, Case)                      | Deliverables (Dates for Data cases in QSTtools; dates for MyFinanceLab HW and Quizzes in MFL)    |
|---------|------|---|--|--|
| 1       | 1/22 | <ul style="list-style-type: none"> <li>Course introduction</li> <li>The time value of money (H1)</li> </ul>   | <ul style="list-style-type: none"> <li>4.1-4.6</li> </ul>      |  |
| 2       | 1/29 | <ul style="list-style-type: none"> <li>The time value of money (continued) (H1)</li> <li>Financial decision making &amp; the law of one price (H2)</li> </ul> | <ul style="list-style-type: none"> <li>3.1-3.2; 3.4</li> </ul> | <ul style="list-style-type: none"> <li>Online Homework 1</li> </ul>                              |
|         | 2/5  | <ul style="list-style-type: none"> <li>No Class (Conference Travel)</li> </ul>  |  |  |
| 3       | 2/12 | <ul style="list-style-type: none"> <li>Interest rates (H3)</li> <li>Bond valuation (H4)</li> </ul>  | <ul style="list-style-type: none"> <li>5.1-5.4</li> </ul>      | <ul style="list-style-type: none"> <li>Online Homework 2</li> <li>Quiz 1</li> </ul>              |
|         | 2/19 | <ul style="list-style-type: none"> <li>No Class (Substitute Monday)</li> </ul>  |  | <ul style="list-style-type: none"> <li>Online Homework 3</li> </ul>                              |
| 4       | 2/26 | <ul style="list-style-type: none"> <li>Bond valuation (H4) continued</li> </ul>   | <ul style="list-style-type: none"> <li>6.1-6.5</li> </ul>      | <ul style="list-style-type: none"> <li>Online Homework 4</li> </ul>                              |
| 5       | 3/5  | <ul style="list-style-type: none"> <li>Stock valuation (H5)</li> </ul>  | <ul style="list-style-type: none"> <li>9.1-9.4</li> </ul>      | <ul style="list-style-type: none"> <li>Online Homework 5</li> <li>Quiz 2</li> </ul>              |
|         | 3/12 | <ul style="list-style-type: none"> <li>No Class (Spring Break)</li> </ul>   |  |  |
| 6       | 3/19 | <ul style="list-style-type: none"> <li>Capital budgeting (H6)</li> <li>Free cash flow estimation (H6)</li> </ul>  | <ul style="list-style-type: none"> <li>8.1-8.2; 8.4</li> </ul> | <ul style="list-style-type: none"> <li>Chapter 6 data case</li> <li>Online Homework 6</li> </ul> |

|    |      |   |  |   |
|----|------|---|--|---|
| 7  | 3/26 | <ul style="list-style-type: none"> <li>Free cash flow estimation (H6) continued</li> <li>Alternative investment decision rules (H7)*</li> </ul> | <ul style="list-style-type: none"> <li>4.4; 4.9; 7.1-7.4</li> </ul>    | <ul style="list-style-type: none"> <li>Online Homework 7</li> <li>Quiz 3</li> </ul>               |
| 8  | 4/2  | <ul style="list-style-type: none"> <li>Capital markets and the pricing of risk (H8)</li> </ul>  | <ul style="list-style-type: none"> <li>10.1-10.8</li> </ul>            | <ul style="list-style-type: none"> <li>Online Homework 8</li> </ul>                               |
| 9  | 4/9  | <ul style="list-style-type: none"> <li>Estimating the cost of capital (H9)</li> </ul>   | <ul style="list-style-type: none"> <li>12.1-12.7</li> </ul>            | <ul style="list-style-type: none"> <li>Online Homework 9</li> <li>Chapter 12 data case</li> </ul> |
| 10 | 4/16 | <ul style="list-style-type: none"> <li>Optimal Portfolio Allocation (H10)*</li> </ul>   | <ul style="list-style-type: none"> <li>11.1-11.2; 11.4-11.8</li> </ul> | <ul style="list-style-type: none"> <li>Online Homework 10</li> <li>Quiz 4</li> </ul>              |
| 11 | 4/23 | <ul style="list-style-type: none"> <li>Pre-exam review session</li> </ul>   |  | <ul style="list-style-type: none"> <li>Practice Exam Assignment</li> </ul>                        |
| 12 | 4/30 | <b>Final Exam</b>   |  |   |

\* indicates topic will be covered only if time allows.



## FE 722: Financial Management

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The teaching assistant will hold office hours (time TBD but most likely directly before class). These sessions are completely voluntary. Their aim is to help students who struggle with some of the theoretical and practical concepts discussed in class. The details will be provided in the first class. Students can also ask questions (to be answered by other students) on the forum, see below.

### COURSE STRUCTURE

The course is comprised of three building blocks, which aim towards the overall goal of being able to value the wealth gain created from a project within a business, or to value the business itself:

#### 1. Present and Future Value

Valuation is one of the most basic concepts in finance. We will begin our discussion of valuation with the notion of discounting. A dollar today is worth more than a dollar tomorrow. A dollar tomorrow is worth less than one today. As we will discover, this simple idea will take us a long way in valuing various financial instruments. We can apply this idea to price securities such as stocks and bonds.

#### 2. Investment Decisions

Next, we will proceed to the analysis of how firms should choose their investments. We will learn how to identify cash flows relevant to the valuation of an investment project and we will discuss popular investment criteria, such as Net Present Value, Internal Rate of Return, and others.

#### 3. Risk and Return

In this part of the course we will study the relation between risk and return. The riskier the investment, the higher the return we require from it to be willing to invest. The study of the relationship between risk and return will lead us to discuss one way of estimating expected returns – the Capital Asset Pricing Model (CAPM). We will apply the logic of CAPM to analyze firms' investment projects using the concept of Weighted Average Cost of Capital (WACC).

#### 4. Valuation

Valuation, and value-based decision-making is the most important function of finance and it is the goal that we are working towards. If you have studied diligently, at the end of the course you will be able to value the equity of a firm or a project with a given capital structure.

## COURSE OBJECTIVES

- To introduce you to the theory and practice of corporate finance.
- To provide you with a set of analytical tools necessary to answer the most important questions related to firms' valuation and investment decision making.
- These course objectives contribute towards the MBA learning goals by enabling students to develop an understanding of core knowledge of finance, and by helping students to apply critical and analytical thinking successfully.

## COURSE PEDAGOGY

- The course will be a mix of
  - Lectures
  - Data cases
  - In-class examples
  - Practical problems in Excel
  - Discussions of current events

## COURSE MATERIALS

- **You are required to purchase MyFinanceLab in order to complete homework and in class quizzes online.** This software includes the e-text for this course - and you can use it for free for the first 2 weeks of the course, but will need to purchase Myfinancelab after that. You do not necessarily need to purchase a hard copy of the textbook in addition (see below).
- **Couse textbook:** (if you buy a new hard copy, online access MyFinanceLab is included with the book): *Corporate Finance* by Jonathan Berk and Peter DeMarzo, 4th edition (including MyFinanceLab access kit), Pearson. **It is expected that students read the material in the textbook indicated in the syllabus as relevant to each lecture before class.** We reserve the right to pose questions to individual students during class ("cold calls") to stimulate class participation.

Note that if you want a hard copy it is OK to buy an older edition of the book if your budget is tight; the content is not identical across editions but the key concepts are all covered in older editions so these will be sufficient for your needs should you wish to have a hard copy of the text. *This said, you should be aware that second-hand editions of the book may not come with MyFinanceLab access (which is required, and which you would then have to purchase separately). So make sure that you check that your textbook purchase includes MyFinanceLab if you don't want to purchase it separately.*

- Additional materials: Lecture notes and additional content will be available on the course website on QuestromTools (see below). **Lecture notes without solutions will be posted on the course website before class so that you can review materials before class.** Students who are new to the subject and find it difficult are **strongly encouraged** to review the slides before class and try to solve the problems posed there that we will tackle in class on your own before class as a form of review or practice of the material that you have read in the textbook before class. You should print out the course materials pertinent to each meeting and bring them with you to class, or have them available on a tablet device or a laptop. Lecture notes with solutions will be posted after the class and students are equally encouraged to review the slides after the class to ensure that they have assimilated the material.
- Course website: All class materials will be posted on Questrom Tools. After class, versions of the lectures with the solutions that we have worked through in class will be posted. In addition to all

class materials, we will also post homework assignments and important announcements on the website; it is your responsibility to visit it frequently, and before each class.

- Optional, interesting or fun material related to the topics covered in the class will also be posted from time to time on the course website. Students can suggest material for this part of the website, or more directly simply post such material on the forum (see below).
- Questrom Tools also contains a **forum** for online discussion of class-related topics. Students are **strongly encouraged** to use this forum for all questions where the answer to the question would be of general interest to the class. This avoids professors or TAs having to answer multiple e-mails on the same topic, because your first port of call when you have a question will be to go to the forum. It also avoids students gaining an unfair advantage over other students by e-mailing the professor and then obtaining knowledge that might not automatically be shared with other students, but which would be useful to them. **Students are encouraged to answer each other's questions on the forum. Class participation points will be awarded to forum participants.**

## PERFORMANCE EVALUATION

The following components will be used to determine your grade:

| Component                          | Total Weight |
|------------------------------------|--------------|
| • Online homework assignments (10) | 2%*10 = 20%  |
| • Quizzes (4)                      | 5%*4 = 20%   |
| • Data cases (2)                   | 5%*2 = 10%   |
| • Class participation              | 10%          |
| • Final exam                       | 40%          |

### Details concerning Performance Evaluation.

- **Online homework assignments:** Homework will be assigned through [www.MyFinanceLab.com](http://www.MyFinanceLab.com) approximately once a week. Generally, the purpose of the homework is to give students appropriate incentives to review material as we go along, and to help you see where you need to review. The precise instructions regarding registering, and logging in into MyFinanceLab are found in the registration handout available in the "Resources" section of the class website. You will have up to 3 attempts and unlimited time to complete each question in the homework assignments. Homework assignments are to be prepared individually. They are to be submitted by 11.50pm on the date indicated in the table.
- **Quizzes:** There will be two quizzes. These will be conducted in class. The quizzes are 30 minutes long and will have the same format as the online homework assignments, except that your first answer will to each question will be taken, and the assignment will be timed.
- **Data cases (spreadsheet assignments):** Ability to building spreadsheet models is an essential business management skill. It is also a more hands on way to see in practice the logical relationships among financial variables that we discuss in class, and so helps solidify understanding. The ability to work comfortably with spreadsheet models is a skill that can only be acquired through practice. There will be two spreadsheet assignments from the course textbook, which you are to complete and submit throughout the semester. The spreadsheet assignments are to be prepared individually. They are due by 11.59pm on the date indicated in the table.

- **Class participation:** We will expect active participation by students. “Active participation” does not necessarily mean that you need to try to answer every single question posed in class. But it does mean that you are a regular volunteer to answer questions. Thoughtful questions and remarks will also be rewarded. “Thoughtful” does not have to coincide with “correct”. The goal of participation is to arrive together at the right answer. When the poll everywhere software is used in class, participation will count towards class participation, but it is important to speak in class as well. Participation on the student forum on Questrom tools (both posing useful questions and providing coherent answers), though strictly optional, will also be rewarded as part of class participation.
- **Final exam:** The exam will cover the material of the entire course. The exam is open-book, that is, you can use whatever material you like during the exam, as long as it is on your computer or in your notes. Internet use – or any other form of communication - will not be allowed during the exam, and will be actively proctored.