

# FIN340

## FINANCIAL MANAGEMENT AND CAPITAL MARKETS

### SPRING 2008

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Office Hours:	Monday and Wednesday 4:00 – 5:00 PM or by appointment. ( <i>Outside of the classroom, this will be by far the best way to interact with us.</i> )	Monday and Wednesday 3:00 – 4:00 PM or by appointment.
Class Times:	Section 01: Monday/Wednesday, 10:00 – 11:30 PM in Simon Hall 104 (Hackbarth) Section 02: Monday/Wednesday, 01:00 – 02:30 PM in Simon Hall 113 (Cai) ( <i>You are required to attend your scheduled section for participation grades.</i> )	
Teaching Assistants:	Martin Abel Josh Chan Teddy Daiell ( <i>You can contact any of the TAs if you have questions.</i> )	E-mail: <a href="mailto:mabel@wustl.edu">mabel@wustl.edu</a> E-mail: <a href="mailto:joshchan@wustl.edu">joshchan@wustl.edu</a> E-mail: <a href="mailto:daiellt@wustl.edu">daiellt@wustl.edu</a>
Course Home Page:	<a href="https://blackboard.olin.wustl.edu/">https://blackboard.olin.wustl.edu/</a>	

**Course Description:** FIN340 introduces you to corporate financial management and capital markets. The course outlines the concepts and techniques (1) to evaluate corporate decisions and (2) to understand the functioning of capital markets. You will learn about topics such as time value of money, valuation of corporate securities, risk and return, discounted cash flow, cost of capital, capital structure, and dividends.

**Objectives:** The objectives are (1) to establish the terminology and tool-box of modern financial theory and (2) to develop the ability to analyze financial decisions. By the end of this course, you should be able to:

- Analyze a firm's financial statements from a finance perspective.
- Evaluate projects and make investment decisions based on data.
- Understand how corporate decisions impact firm value.
- Develop structured quantitative models (e.g. in Excel).

To this end, FIN340 provides a basic understanding of the way companies make financial decisions and, more generally, how markets assess value that is created in a business.

**Recommended Textbook:** The recommended text is entitled [\*Fundamentals of Corporate Finance\*](#) (FCF) by Stephen A. Ross, Randolph W. Westerfield, and Bradford D. Jordan, 8th edition, McGraw Hill, 2008. It is a *recommended* (i.e. *not* required) text because our lectures will present topics in a self-contained manner. The textbook will probably promote your learning and serve as a good reference. However, there may be a few topics that are not covered in the book, and there are topics we will cover in class with a different emphasis than in the text. I think it's nevertheless the single most useful textbook as well as a valuable source for additional in-depth reading on the material that's relevant for introductory courses in finance. I've requested several copies to be placed *on reserve* in the library along with a *Student Problem Manual*, which contains brief summaries of each chapter as well as additional review questions and problems. Finally, a limited amount of background material will be provided from the financial press.

**Prerequisites:** This course requires a thorough understanding of accounting (ACCT 2610), economics (ECON 103B or MECO 290), mathematics (MATH 128 or 132), and statistics (QBA 121). Except for QBA 121, which can be taken concurrently, all other courses must have been completed prior to enrollment.

**Blackboard:** Course materials such as lecture notes, required homework assignments, supplemental practice problems, worked solutions to problems, and other useful information will be available on the course web page at Blackboard: <https://blackboard.olin.wustl.edu/>. If you have any questions regarding Blackboard, you can learn about it by visiting: <http://www.olin.wustl.edu/computing/help/blackboardFAQ.cfm>. Solutions to homework and practice problems will be posted after the relevant due dates.

**Homework assignments:** There are six homework assignments, which provide you with an opportunity to apply the concepts and tools presented during lectures. In addition, they enable you to check whether you're learning to solve a wide variety of financial problems. By looking at your performance on these assignments, you can monitor your progress in my class. They will be graded by giving a "check-plus," "check," "check-minus," or "no credit." Homework assignments can be done in groups of up to four students and should be submitted jointly. Of course, there is no reason to believe that an organized group is the optimal approach for everyone. Solutions are posted after the class in which the assignment is due. Late submissions will *not* be accepted.

**Exams:** There are in total *three exams*. Exams are *not* optional; that is, students are *required* to take *all three exams*. The first two exams are *non-cumulative*. These midterm exams are given during normal class times (see tentative schedule below for details). The final (i.e., third) exam is given during finals week on Thursday May 1 from 3:30 – 5:30 PM in Simon Hall 104 (Section 01) and Simon Hall 113 (Section 02). The final exam is going to cover new and old material; that is, it is a *cumulative final*.

Exams consist of a combination of problems and multiple choice questions. Exams are closed-book and closed-notes. Only *basic* (i.e., non-programmable) *calculators* are allowed and encouraged during the exam. No cell phones with calculators (and text-messaging!) are allowed during exams. For the quantitative multiple choice questions, you won't get any credit by guessing the correct answer. To get full credit you have to show your calculations and/or reasoning on the exam booklet.

The exam times are *non-negotiable*. If you have a conflict, you must inform me by the end of the second week of the course. Hence I encourage you to check your schedules early. During the semester, if you have a health problem and you won't be able to take the exam on the scheduled date, you should let me know two weeks in advance. If you think you will miss an exam (1) immediately call or e-mail me prior to the exam time and (2) bring reliable proof of absence. Without clear and hard evidence, you get no credit.

**Grading:** Your grade for the course will be determined by homework assignments, a valuation assignment, and three exams. The homework and valuation assignments will typically be group projects. Since a group approach to assignments is subject to the so-called free-rider problem, I reserve the right to assign one half of the grade for the homework assignments to peer review. Your grade will be determined according to the following weighting:

Exam 1	20%
Exam 2	20%
Final Exam	30%
Valuation assignment	10%
Homework assignments	10%
Class participation	10%

Grades are *non-negotiable*. Grade appeals (e.g. because your points weren't added up correctly) must be submitted within a week after the grades were released.

If you are unable to attend a significant portion of the course for a legitimate reason (e.g., a serious health problem), the following rules apply:

- a. If you miss one midterm you will be evaluated on the basis of existing performance in this course (i.e., more than 80% of your coursework).
- b. If you miss two midterms or one midterm and more than three homework assignments you will get an Incomplete (i.e., 50 to 80% of your coursework).
- c. If you miss three events (three midterms, two midterms and more than three homework assignments, etc.), you will fail and get an F (i.e., less than 50% of your coursework).

**Participation:** You are strongly encouraged to attend all classes and, in particular, to actively participate in class. This significantly enhances your learning experience. Participation counts for ten percent of your grade. Your grade for class participation will be determined by both the *quantity* and *quality* of your contributions. Participation grades are not awarded based on mere class attendance.

**Holidays:** If you won't be able to attend an exam or submit a project because of a religious holiday, please let me know at least two weeks in advance.

**Special Needs:** Any student with special needs should bring this to my attention as soon as possible, but not later than the second week of classes.

**Honor Code:** This course will be conducted according to the standards specified in the University Student Judicial Code and the BSBA Code of Conduct, regardless of whether or not you are a business major. For detailed information regarding these standards, please visit: <http://www.olin.wustl.edu/bsba/srv/pubs.cfm>. I expect you to be familiar with them. For example, all discussions about the homework assignments are to be limited to your group. Materials such as assignments from other groups or those from previous years are not to be consulted. If there is any uncertainty as to whether a particular conduct is consistent with my expectations or not, you are expected to ask me.

**Class Communication:** If you have questions or need individual assistance, you can contact me and make an appointment to see me at a mutually convenient time at my office. In addition, I will regularly post answers to Frequently Asked Questions (FAQs) at Blackboard under the *Announcements* tab. Even though e-mail is certainly the most convenient way for you to reach me, the best way to interact with me outside of the classroom is during office hours. Prior to exams, I will hold plenty of additional office hours for you. When you send me questions by e-mail, note that I don't check e-mail at night because I need rest, too.

**Review Sessions:** As we move along, I will announce optional review sessions to supplement the material covered lectures. The primary objectives will be to work through examples and exercise which cannot be covered during class and to provide additional review in preparation for exams. The dates and items to be covered in each session will be posted on Blackboard. I have already reserved Simon Hall 108 on Wednesdays from 4:00 to 5:00 PM for these occasional help sessions.

**Class Schedule:** The *tentative* class schedule is given below. The topics covered on each proposed date may change as the semester progresses, but the general order should not vary. The *recommended readings* refer to chapters in FCF by Ross, Westerfield, and Jordan. The *recommended practice problems* and *required homework assignments* will be available at Blackboard (however, their dates are *very* tentative).

**TENTATIVE SCHEDULE OF CLASSES**  
**– Current as of December 3, 2007 –**

<b>Class Number</b>	<b>Topics</b>	<b>Readings</b>	<b>Assignments</b>
1 (01/14)	<u>Introduction</u> <ul style="list-style-type: none"> <li>• Discussion of Syllabus</li> <li>• Goal of Financial Managers</li> <li>• Valuation Basics and Overview</li> </ul>	Chapter 1	
2 (01/16)	<u>Financial Tools (I)</u> <ul style="list-style-type: none"> <li>• Time Value of Money I</li> <li>• Annuity and Perpetuity</li> </ul>	Chapters 5, 6	Practice Problems 1
(01/21)	<b>No Classes: Martin Luther King Day</b>		
3 (01/23)	<u>Financial Tools (II)</u> <ul style="list-style-type: none"> <li>• Time Value of Money II</li> <li>• Real vs. Nominal Rates</li> </ul>	Chapters 5, 6	Practice Problems 2
4 (01/28)	<u>Cash Flow Analysis (I)</u> <ul style="list-style-type: none"> <li>• Effects of Accrual Accounting</li> <li>• Free Cash Flow (FCF)</li> </ul>	Chapters 2, 3	<b>Homework #1:</b> <b><i>Time Value of Money</i></b> <i>(due at beginning of class)</i> In-Class Exercise: XYZ, Inc.
5 (01/30)	<u>Cash Flow Analysis (II)</u> <ul style="list-style-type: none"> <li>• More Free Cash Flow</li> <li>• Clarification of different methods</li> </ul>	Chapters 2, 3	Practice Problems 3 In-Class Exercise: IBM, Inc.
6 (02/04)	<u>Capital Budgeting (I)</u> <ul style="list-style-type: none"> <li>• Incremental Project Cash Flow</li> <li>• Net Present Value</li> </ul>	Chapter 9	In-Class Exercise
7 (02/06)	<u>Capital Budgeting (II)</u> <ul style="list-style-type: none"> <li>• Comparing Projects</li> <li>• Equivalent Annual Cost</li> </ul>	Chapter 10	In-Class Exercise Practice Problems 4
8 (02/11)	<u>Capital Budgeting (III)</u> <ul style="list-style-type: none"> <li>• Scenario &amp; Sensitivity Analysis</li> <li>• Discussion of Homework 2</li> </ul>	Chapter 11	<b>Homework #2:</b> <b><i>Investment Detective</i></b> <i>(due at beginning of class)</i>
9 (02/13)	<u>Exam 1 Review</u> <ul style="list-style-type: none"> <li>• Overview Classes 1-8</li> <li>• More In-Class Exercises</li> </ul>		Practice Exam 1
10 (02/18)	Midterm Exam 1	In the classroom, during class time	

Class Number	Topics	Readings	Assignments
11 (02/20)	<u>Valuing Bonds</u> <ul style="list-style-type: none"> <li>Corporate and Treasury Bonds</li> <li>Term Structure of Interest Rates</li> </ul>	Chapters 7	In-Class Exercises
12 (02/25)	<u>Financial Statement Analysis</u> <ul style="list-style-type: none"> <li>Ratio Analysis</li> <li>Dupont Identity</li> <li>Operating Leverage</li> </ul>	Chapters 3 & 11.5 (pp. 355-358)	In-Class Exercise: <i>K-Mart, Target, Wal*Mart, U-City Beer Buckets</i>
13 (02/27)	<u>Multiples Valuation</u> <ul style="list-style-type: none"> <li>Definition of Market Ratios</li> <li>Price Earnings Ratio</li> </ul>	No readings ☺	In-Class Exercise: <i>Comparing PE Ratios</i> Practice Problems 5
14 (03/03)	<u>Valuing Stocks</u> <ul style="list-style-type: none"> <li>Discounted Cash Flow</li> <li>Sequential Valuation</li> </ul>	Chapter 8	<b>Homework #3:</b> <b><i>Ratios and Valuing Bonds</i></b> <b><i>(due at beginning of class)</i></b>
15 (03/05)	<u>Projecting Financial Statements</u> <ul style="list-style-type: none"> <li>Projecting Financial Ratios</li> <li>Variable vs. Fixed Costs</li> <li>Replacement of Fixed Assets</li> </ul>	Chapter 4	In-Class Exercise: <i>HighFly, Inc.</i>
(03/10)	No Classes: Spring Break		
(03/12)	No Classes: Spring Break		
16 (03/17)	<u>Risk and Return (I)</u> <ul style="list-style-type: none"> <li>Market Efficiency</li> <li>Types of Risk</li> </ul>	Chapters 12, 13	
17 (03/19)	<u>Risk and Return (II)</u> <ul style="list-style-type: none"> <li>Diversification</li> <li>Systematic Risk (<i>Beta</i>)</li> </ul>	Chapters 12, 13	Practice Problems 6
18 (03/24)	<u>Valuation Assignment</u> <ul style="list-style-type: none"> <li>In-Class Discussion of Solution</li> </ul>		<b>Homework #4:</b> <b><i>Valuation Assignment</i></b> <b><i>(due at beginning of class)</i></b>
19 (03/26)	<u>Exam 2 Review</u> <ul style="list-style-type: none"> <li>Overview Classes 11-18</li> <li>More In-Class Exercises</li> </ul>		Practice Exam 2
20 (03/31)	<u>Midterm Exam 2</u> ( <i>Non-Cumulative</i> )	In the classroom, during class time	

Class Number	Units and Topics Covered	Readings	Assignments
21 (04/02)	<u>Cost of Capital</u> <ul style="list-style-type: none"> <li>Weighted Average Cost of Capital</li> <li>Firm and Project Cost of Capital</li> </ul>	Chapters 15	In-Class Exercises: <i>WACC and Leverage, Inc.</i>
22 (04/07)	<u>Capital Structure (I): Perfect Market</u> <ul style="list-style-type: none"> <li>M&amp;M's Assumptions</li> <li>Proposition I: Firm Value</li> <li>Proposition II: Cost of Equity</li> <li>Business and Financial Risk</li> </ul>	Chapter 17.1-17.3 (pp. 551-562)	In-Class Exercise: <i>Changing Leverage without Corporate Taxes</i> <b>Homework #5: WACC</b> <i>(due at beginning of class)</i>
23 (04/09)	<u>Capital Structure (II): Imperfect Market</u> <ul style="list-style-type: none"> <li>WACC with Bankruptcy &amp; Taxes</li> <li>Value of Levered Firm</li> <li>Dollar gain from Tax Benefit</li> <li>Dollar cost due to Bankruptcy</li> </ul>	Chapter 17.4-17.10 (pp. 562-582)	Practice Problems 7 In-Class Exercise: <i>Changing Leverage with Corporate Taxes I</i>
24 (04/14)	<u>Capital Structure (III): The Real World</u> <ul style="list-style-type: none"> <li>Agency Costs: <ul style="list-style-type: none"> <li>– Debtholders and Shareholders</li> <li>– Managers and Shareholders</li> </ul> </li> <li>Capital Structure Puzzle</li> </ul>	No readings ☺	In-Class Exercise: <i>Changing Leverage with Corporate Taxes II</i>
25 (04/16)	<u>Payout Policy (I)</u> <ul style="list-style-type: none"> <li>Types of Dividends</li> <li>Irrelevancy of Dividends</li> <li>Share Repurchases</li> </ul>	Chapter 18	In-Class Exercise: <i>Dividends</i> <b>Homework #6:</b> <b>Capital Structure</b> <i>(due at beginning of class)</i>
26 (04/21)	<u>Payout Policy (II): The Real World</u> <ul style="list-style-type: none"> <li>Dividend Clienteles</li> <li>Dividend Signaling</li> </ul>	Chapter 18	Practice Problems 8 In-Class Exercise: <i>Dividends vs. Repurchases</i>
27 (04/23)	<u>Final Exam Review</u> <ul style="list-style-type: none"> <li>Course Review/Key Concepts</li> <li>More In-Class Exercises</li> </ul>		Practice Exam 3
(04/28)	No Classes: Reading Day		
(04/30)	No Classes: Reading Day		
28 (05/01)	<u>Final Exam (Cumulative):</u> <ul style="list-style-type: none"> <li>Time: 3.30 – 5.30 PM</li> <li>Section 01: Simon Hall 104</li> <li>Section 02: Simon Hall 113</li> </ul>		Practice Exam 3

## MY FRIENDS IN FIN340

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