FINANCIAL MANAGEMENT (BA 385T)

FALL 2007

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Course Objectives

Financial management provides a foundation of the main topics in financial economics covering selected topics in corporate finance and asset pricing. In corporate finance we will be discussing capital budgeting, valuation, capital structure, and payout policy. In asset pricing we will be studying the risk and return tradeoff, the Capital Asset Pricing Model, market efficiency, and derivative securities.

The course's objective is to provide a theoretical framework for considering corporate finance problems and issues and to apply these concepts in practice.

I have three primary goals for the course: (1) to give everybody a base level of finance knowledge that an MPA from a top business school should possess, (2) to give everybody the ability and confidence to tackle common financial problems in practice, and (3) to provide adequate preparation for future finance classes, especially the advanced corporate and investment classes at the McCombs School of Business.

In this course, you will enhance your knowledge and understanding of financial management. Through class discussion, informal study groups, and formal group projects you will enhance your communication and collaboration skills. You will learn how managers should organize their financial transactions effectively and with integrity. Finally, financial markets are globally integrated and we will discuss many cases and examples involving international companies, giving you a global perspective on financial management.

Materials

Required

Jonathan Berk and Peter DeMarzo: Corporate Finance. Pearson, Addison Wesley, 2007.

Harvard Business School Case: Airbus A3XX: Developing the World's Largest Commercial Jet (9-201-028), April 2004.

Harvard Business School Case: Dow Chemical's Bid for the Privatization of PBB in Argentina (9-204-021), March 2006.

Financial Calculator (For example: HP-12C, HP-10B, or any calculator that will do time value and IRR calculations).

Wall Street Journal, Financial Times, New York Times, Economist, or other financial press.

Course Requirements and Grading

Your grade in the course will be determined as follows:

Final Exam	35%
Midterm Exam	20%
Group Homework Assignments	15%
Class Contribution	15%
Case Writeups	10%
Portfolio Project	5%

The grading policy for the class will fall within +/- 0.05 of 3.3. I expect that about 30% of students will obtain an A or an A- and about 10% of students will obtain a B- or below.

Final and Midterm Exam

Exams will be based primarily on material covered in class. However, they can also cover material covered in the financial press or other relevant material. There will be no makeup exams. If you miss the midterm exam for a pre-approved reason, then the final will count 55%

The weights in the final and the midterm exams can be adjusted depending on your performance. If you do relatively well on the midterm exam, then it will count for 20% and the final will count for 35% as described above. On the other hand, if the performance on the midterm is relatively disappointing, then you can decrease the weight of the midterm exam to 10% and increase the weight of the final exam to 45%. This will give you a second chance and enable you to catch-up if your midterm performance was disappointing.

Group Homework Assignments

There will be four homework assignments during the course. The assignments will be distributed the week prior to the due date and need to be submitted at the beginning of the classes indicated in the schedule given below. Late homeworks will not be accepted for any reasons. However, only the three best assignments will enter the final score. Thus, you can decide to skip one of the assignments if you have an emergency or decide not to submit one of the homeworks.

You will work in self-selected groups of between three and five people and the group composition needs to be identical for all the various assignments (cases, homeworks, projects). Each group will hand in only one typed assignment. Part of the class contribution grade will be determined by peer evaluation of each member's contribution to the case projects and homework assignments.

Case Writeups

The cases are from Harvard Business School are available on the website of the Harvard Business School Press (http://www.hbsp.harvard.edu). For the two cases written analyses are to be prepared by the same groups of two or three students described above. Copies of the written reports are due at the beginning of class on the day the cases will be discussed in class according to the class schedule. No late written reports will be accepted. Each group will hand in only one typed assignment. Part of the class contribution grade will be determined by peer evaluation of each member's contribution to the case projects.

For the cases, students should try to put themselves in the shoes of the case participants at the time of the case. Students may do additional research (e.g., on the internet). Students may not look at or use case materials from any other source, such as slides, spreadsheets or discussions that may be available on the internet or otherwise. Other schools assign HBS cases, but students may not use their discussions, materials, or solutions in any way.

Portfolio Project

The student teams described above will invest a fictitious $1,000,000 in a minimum of 10 stocks. You are required to submit two reports. In an initial report you will need to describe your portfolio and briefly justify your portfolio selection. In the final report, you need to explain the overall strategy and performance of your investment strategy. The score on the portfolio project depends on the quality of the submitted report and the explanation and defensibility of the overall investment strategy, and not on the final performance of your portfolio. Details regarding the portfolio project is forthcoming.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MPA experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MPA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students are fully prepared for each class.** Much of the learning in the Texas MPA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. If we make general use of laptop computers in class, then I will explicitly permit their use.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins.

Academic Dishonesty

The school has no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on http://mba.mccombs.utexas.edu/students/academics/honor/index.asp and on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. During Orientation, you signed the Honor Code Pledge. In doing so, you agreed to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance for this course, you should consider the *writing* of all examinations to be an individual effort without any use of books, notes, or other unpermitted aids. Group *preparation* for examinations is acceptable and encouraged.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at http://deanofstudents.utexas.edu/ssd/index.php. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Schedule

The following course schedule is preliminary. Depending on your interest and the difficulty of the material, I might move at a faster or at a slower pace. However, I am confident that we will be able to cover the most important areas of derivatives and risk management.

Meeting	Day	Date	Topic	Chapter
1	Wed	Aug-29	Class introduction; go over syllabus;	
			Corporate Structures, the Objective Function, Agency Issues	1
2	Wed	Sept-5	Financial Statement Analysis and Time Value of Money	2
			Applications	4
3	Mon	Sept-10	Introduction to Financial Decision Making	3
			NPV, Law of One Price, Intro to Interest Rates	
4	Wed	Sept-12	Interest Rates, compounding conventions, The Yield Curve,	5
			Opportunity Cost of Capital with Risk	
			Written Portfolio Selection Report Due	
5	Mon	Sept-17	Investment Decision Rules:	6
			NPV, IRR, Payback, EVA, PI	
6	Wed	Sept-19	Capital Budgeting – the pieces (Sunk Costs, WC, Salvage)	7
			HW 1 Due	
7	Mon	Sept-24	Capital Budgeting – Application	7
8	Wed	Sept-26	**HBS Airbus 380 Case on Capital Budgeting**	
			Written Case Report Due	
9	Mon	Oct-1	Valuation and Analysis of Bonds –	8
			Structure, Yields, Valuation, Credit Spreads	
10	Wed	Oct-3	Valuation and Analysis of Bonds –	8
			Structure, Yields, Valuation, Credit Spreads	
11	Mon	Oct-8	Valuation of Stocks – The Dividend Discount Model and	9
			Ratios	
12	Wed	Oct-10	Catch-Up	
			HW 2 Due	
13	Mon	Oct-15	Midterm Review	
	Wed	Oct-17	**Midterm**	

Meeting	Day	Date	Topic	Chapter
14	Mon	Oct-22	Capital Markets and Risk The data 1926-today; risk and return tradeoff; state-probabilities; firm specific and systematic risk	10
15	Wed	Oct-24	Portfolio Theory – The mathematics of risk and return with 2-assets, the role of correlation, optimal portfolios and the efficient frontier	11
16	Mon	Oct-29	The CAPM – The theory (equation and graph), estimating the CAPM in practice, Fama-French 3-factor model, market efficiency	12
17	Wed	Oct-31	Capital Structure in a Perfect Market – M&M I and II; WACC	14
18	Mon	Nov-5	Capital Structure with Taxes and Financial Distress **HW 3 Due**	15, 16
19	Wed	Nov-7	Payout Policy – Dividends, Repurchases, and Signaling	17
20	Mon	Nov-12	Valuing a Firm – Cash Flows, DCF with WACC, APV, Valuing with Comps	18, 19
21	Wed	Nov-14	Valuing a Firm – (Continuation)	18, 19
22	Mon	Nov-19	**HBS Dow/PBB Case on company valuation** **Written Case Report Due**	
23	Wed	Nov-21	International Financial Issues – The discount rate and cash flows with currency risk	31
24	Mon	Nov-26	Options – Instruments, Payoffs, Determinants of Value, Black-Scholes	20, 21
25	Wed	Nov-28	Option Applications An Options view of Debt and Equity, Real Options **Written Portfolio Project Report Due**	22
26	Mon	Dec-3	Catch-up	
27	Wed	Dec-5	Last Day of Class - Review and course evaluations **HW 4 Due**	
		Dec-14 **2-5pm**	**FINAL - EVERYTHING (all of the above)**	

Honor Code Purpose

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the Graduate School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

Faculty Involvement in the Honor System

The University of Texas at Austin McCombs School of Business Faculty's commitment to the Honor System is critical to its success. It is imperative that faculty make their expectations clear to all students. They must also respond to accusations of cheating or other misconduct by students in a timely, discrete and fair manner. We urge faculty members to promote awareness of the importance of integrity through in-class discussions and assignments throughout the semester.

Expectations Under the Honor System

Standards

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Services Office. Below are some of the specific examples of violations of the Honor System.

Lying

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

Stealing

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

Cheating

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

Actions Required for Responding to Suspected and Known Violations

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the Graduate School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the Graduate School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the Graduate School of Business."