Fall 2008



FIN 357 – Business Finance TTH (3170) 9:30 – 11:00 am, UTC 4.104 TTH (3185) 12:30 – 2:00 pm, CBA 4.348 TTH (3210) 3:30 – 5:00 pm, UTC 1.104

**Professor:** Oliver Spalt **Office:** CBA 6.228

**Office hours:** TTH 2:00 - 3:00 pm

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Course Web Page: via Blackboard

TA: tba

## **Course Objectives:**

This course is designed as a rigorous, hands-on introduction to the principles of modern corporate finance. It is a core course for most programs and forms the foundations for subsequent courses in corporate finance, security analysis, investments, fixed income securities, speculative markets, and real estate finance. Its purpose is to provide an introduction to the concepts and techniques of financial analysis, with an emphasis on *corporate* finance. The main topics covered include (1) present value and capital budgeting techniques, (2) asset valuation and the trade-off between risk and return, (3) the financing decisions of the firm, and, if time permits, an (4) introduction to option valuation. After completing the course, you should be able to understand and critically evaluate the discussion of financial issues in the popular press and have a framework for analyzing the major types of financial decisions made by corporations.

The fundamental goal of any business is to create value for its shareholders. Hence, a thorough understanding of how shareholder value can be created is very important not only for those who want to work in finance, but also for individuals working in accounting, marketing, operations management and in all other parts of the company. Creating value is an essential part of being a leader! This course wants to provide you with the necessary tools to make smart decisions that create value.

### **Prerequisites:**

Accounting 311 or 311H, 312 or 312H, Economics 304K and 304L, Statistics 309 or 309H, and credit or registration for Business Administration 324 or 324H.

### **Required for this course:**

- **Textbook:** Ross, Westerfield, and Jaffe, *Corporate Finance*, 8<sup>th</sup> edition, McGraw-Hill. This is one of the two leading textbooks in the field. The course will closely follow its structure it is essential that you have a copy at hand during the entire course.
- Calculator: Any calculator that has an  $x^y$  button will do. Laptop computers and electronic equipment other than your calculator will not be allowed for the exams. You do not need a financial calculator for this course. If you decide to use one, be aware of the fact that some

points in exams may be given for showing how you reached the solution. You should be able to do this even if you are using a financial calculator. Calculators that are programmable and/or can store text are not permitted in exams.

• **Homework Manager account:** Required home work assignments are completed and submitted online by using the Homework Manager software. Before you can use the software, you need to establish a Homework Manager account (the cost is \$20). I will provide you with detailed information on how to do this in the first week of September.

# **Sources of learning:**

Learning from one source only is boring and ineffective. There are thus several sources of learning to help you succeed in this course:

**Textbook:** There are required readings for each lecture. The book is excellent and presents the material in a comprehensible yet rigorous manner. Unless otherwise stated, the entire chapter is relevant for exams independent of whether the material was on the lecture slides.

**Lecture:** The lecture is a central source of learning and will in general follow the book very closely. I will present the most important points from the assigned textbook chapter. I will, however, not be able to present everything. Instead, I will emphasize certain aspects and neglect others. I will also present material in the lecture which is not in the book. This material is added because I think it is important in enabling you to get on top of the subject. Everything that is on the lecture slides is relevant for the exams. The lecture slides will be posted on Blackboard. Please print them prior to coming to class.

Exercise sessions and problem sets: This course is designed to be hands-on. There will thus be formal exercise sessions in which we will solve problem sets in class (for time and dates see attached schedule). These problem sets will be available on Blackboard sufficiently ahead of time. Solutions will also be posted. Problem sets will not be graded and you do not have to hand them in. Nevertheless, I expect that you prepare them in advance and that you are able to respond to questions when called on in class. These problems will be close in format to some of the questions on the exam. Discussing and solving problem sets in a group is a very effective way of learning and I encourage you to do so. Since probably most of you will be using spreadsheets in their future jobs, we will have one exercise session using Excel. Please bring your laptops to this session and download the template posted on Blackboard before you come to class.

**Homework assignments:** There will be homework assignments throughout the semester (for time and dates see attached schedule). These will consist of a series of smaller questions and should help you to review the material continuously. You will be required to complete and submit homework electronically through the Homework Manager software. Homework assignments will not be graded but judged on completion. Homework has to be handed in prior to the deadline displayed in your Homework Manager account. I encourage group work on these assignments because group discussions are a great way of learning. But note that every student needs to upload a solution in their own name. Please see also the tips for using Homework Manager below.

**Exams:** There will be two midterm exams and one final exam. The final exam is cumulative. There is no pre-set format for exams but they are likely to include multiple-choice questions, "Always true."/"Only true if..."/"Wrong because..." – questions, and longer quantitative questions. In each exam there will be at least one question from the end-of-chapter questions.

**End-of-chapter questions:** These are not assigned, graded, or reviewed in class. I will, however, make the solutions available on Blackboard to give you every opportunity for additional practice. In each exam, at least one of the questions will come from the end-of-chapter questions.

**Other:** For any problems or questions you have on the material or the course on general, you are welcome to see me during my office hours. I will make every effort to help you. However, office hours cannot replace lectures. Hence, I do expect that you have made an honest attempt to solve the problems on your own before you come to my office. Last but not least: UT has outstandingly bright students. Make use of your chance to interact with and learn from your fellow students!

## **Grading scheme:**

Your grade will be determined according to the following scheme.

	Percent of
	final grade
Midterm 1	25%
Midterm 2	25%
Final exam	40%
Homework (best 6 of 8)	10%
	100%

The best six out of a possible eight homework assignments are used to determine your total grade on homework. You may thus choose to not hand in two assignments without a penalty. If you hand in only x < 6 homework assignments, 6 - x assignments will be evaluated as non-completed. Your letter grade for the course will be based on your ranking in the course. You should expect to see about 25% A, 40-50% B, 15-25% C, and 10% D or below. For exceptionally many good or bad performances, I may adjust the overall grade distribution accordingly. Make-up or extra work to improve your grade is not possible.

#### **Exam Policies:**

- Alternate exam dates are not an option. Conflicts between the scheduled exams and other academic or work requirements should be resolved by the student. Anyone missing an exam will receive zero points for that test. Exceptions for *documented* medical or family reasons may be permitted. If possible, please contact me before the exam. If you have missed a midterm exam for an approved reason, the weight of the final exam for your final grade will be 65%.
- Calculators, which are not programmable and not capable of storing text, may be used when taking an exam.

- Cheating will not be tolerated. Students who cheat will be disciplined to the maximum extend possible.
- You are allowed to bring one letter-size piece of paper to the final exam (since it is cumulative) but not the midterm exams. As long as it is hand-written you can put anything on both sides of the paper you think will help you in the exam.

### **Other Class Policies:**

- Without regular class attendance receiving a good grade will be next to impossible. I thus expect that you come to class regularly, on time, and that you stay the entire section.
- If you nonetheless miss a class, it is your responsibility to determine what was covered including any administrative announcements. Expect that some of the material covered in exams will not be in the text.
- Cell phones, laptops, BlackBerries, iPods and all other electronic devices have to be turned off before coming to class; they distract you, me, and your fellow students.
- Disruptive behaviour that prevents other students in class from doing well will not be tolerated. I reserve the right to make deductions from your final grade for extreme misconduct.

## **Homework Manager Tips:**

- You can only do one thing at a time. You cannot view past results while you are in the process of taking an assignment. You cannot take two graded assignments at the same time.
- When trying to print an assignment use the browser's Print Preview and Page Setup options to get the best output possible. You should switch from portrait to landscape, and should extend the margins as far as possible.
- Use the "Next", "Back", "Jump To", and "Save my work" buttons periodically to save and avoid timing out. If there is no activity within 60 minutes, Homework Manager will automatically log out your session.
- Click "Quit and Save" if you wish to work on your assignment at a later time without grading. Remember, you can only work on one open, ungraded assignment at one time.
- Don't copy and paste, this might enter illegal characters in your homework and prevent you from getting a grade.

#### **Students with Disabilities:**

The University of Texas at Austin provides upon request academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

## **Student Privacy:**

Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html

# **Schedule:**

Week	Date	Day	Торіс	Chapter(s)	Work due
1	28-Aug	TH	Handout of Syllabus		
2	2-Sep	T	Introduction	1	
2	4-Sep	TH	Financial statements and Cash Flow	2, 3.1-3.4	
3	9-Sep	T	Discounted cash flow valuation	4	
3	11-Sep	TH	Valuing stocks and bonds	5	HW 1 due
4	16-Sep	T	Valuing stocks and bonds	5	HW 2 due
4	18-Sep	TH	Exercise session 1	4 and 5	Prepare problem set 1
5	23-Sep	T	NPV and other investment rules	6	
5	25-Sep	TH	Making capital investment decisions	7	HW 3 due
	20. C		Risk analysis, real options, and capital	0	
6	30-Sep		budgeting	8	
6	2-Oct		Exam I (in class)	1 to 8	
7	7-Oct	T	Risk and return	9	TTXY 4 1
7	9-Oct		Risk and return, portfolio theory and CAPM	10	HW 4 due
8	14-Oct	T	Risk and return, portfolio theory and CAPM	10	D 11 0
8	16-Oct	TH	Exercise session 2	9 and 10	Prepare problem set 2
9	21-Oct	T	Arbitrage pricing theory	11	
9	23-Oct		Risk, cost of capital, and capital budgeting	12	TTX 7 . 1
10	28-Oct	T	EMH	13, 13 BMA*	HW 5 due
10	30-Oct		Exam II (in class)	9 to 12	
11	4-Nov	T	Capital structure: Basic concepts	14, 15	
11	6-Nov		Capital structure: Limits to the use of debt	16	D 11 2
12	11-Nov	T	Exercise session 3	15 and 16	Prepare problem set 3
12	13-Nov	TH	Valuation and capital budgeting for the levered firm	17	HW 6 due
			Excel practice session: DCF and APV		Bring laptop!
13	18-Nov	T	company valuation	3.5, 17	Prepare problem set 4
13	20-Nov	TH	Dividend policy	18	
14	25-Nov	T	Issuing securities to the public	19	HW 7 due
14	27-Nov	TH	Happy Thanksgiving		
15	2-Dec	T	Options and corporate finance	22 (not 22.8)	
15	4-Dec	TH	Options and corporate finance / Review	22 (not 22.8)	HW 8 due
	10/13 or 15/16 Dec		Final Exam	All chapters covered	

I reserve the right to make adjustments to the lecture schedule to best serve the interest of the class. Exam dates will not change.

<sup>\*</sup> This is a chapter from Brealey, Myers, and Allen, Principles of Corporate Finance. I will try to make this available on Blackboard.