BA385T
R. Parrino
Parrino@mail.utexas.edu

Spring 2008
Phone (512) 471-5788
Fax (512) 471-5073

Financial Management

Course Objective

This course covers fundamental concepts in finance. It provides a framework for analyzing investment and financing decisions. The course introduces students to financial concepts and their application through a combination of lectures and case problems. The main emphasis is on how to evaluate investment and financing opportunities in a corporation. The course examines investment decisions, financial policy, dividend policy, and issues in corporate control.

Course Materials

1) Brealey, Richard A., Stewart C. Myers, and Franklin Allen, Principles of Corporate Finance (9th ed.), New York, NY, McGraw Hill Irwin, 2008.

2) Readings Packet.

3) Basic Financial Calculator.

Grading

Course grades will be determined as follows:

	Weight
Homework Assignment	10%
Group Valuation Case Report	20%
Midterm Exam	30%
Final Exam	40%

Homework Assignment: There will be one homework assignment during the semester. It will count 10% toward the final grade. Every student is expected to submit solutions to the homework problems, although it is perfectly acceptable to work on the solutions to these problems with other students.

Group Valuation Case Report: Students will form groups of approximately five persons. Each group will be responsible for preparing a written report describing the valuation of a business (maximum of 8 pages, including exhibits) and negotiating the purchase or sale of this business with another group.

Midterm and Final Exam: The exams will test both the students' understanding of the underlying financial theory and their ability to work applied problems correctly. The final will be cumulative, but will be weighted toward material covered after the midterm.

The midterm exam will be completed outside of class. It will be distributed in class on February 9th and will be due at the beginning of the class period on February 22th. This exam is to be completed individually. Do not discuss it with anyone else in either cohort until after 5:00 p.m. on February 23rd.

If you miss the class in which the midterm exam is distributed, you can obtain the exam from Blackboard on or after the Sunday following the class in which it is distributed.

If a personal emergency should force you to miss the class period in which the midterm exam is due, you can 1) place the exam in a sealed envelope and ask a classmate to hand it in for you or 2) you can mail it directly to me at the following address:

Robert Parrino
Department of Finance, CBA 6.222
The University of Texas at Austin
1 University Station, B6600
Austin, Texas 78712 Austin, Texas 78712-1179

The final exam will be an in-class exam and will be given on the last day of class (April 19).

Other Comments

- No laptop computers will be allowed in the classroom unless explicitly authorized by the instructor.
- All students are expected to be seated and ready at the beginning of class. I reserve the right to refuse admission to any student who does not make it to class on time. If you miss a class, you are responsible for any material that you miss, including any administrative announcements.
- To be fair to other students, I will not give any extra-credit assignments. Your final grade will be determined solely by the system described above.
- I expect every student to abide by the Honor System.

Class Materials on the Web

- Course-related information including the syllabus, class handouts, uncollected homework and supplemental materials will be posted on Blackboard.

Class Schedule/Readings

Jan. 11/12 Introduction, Time Value of Money, and Valuing Bonds
Chapter 1 (Finance and the Financial Manager)
Chapter 2 (Present Values, the Objectives of the Firm, and Corporate Governance)
Chapter 3 (How to Calculate Present Values)
Chapter 4 (Valuing Bonds)

Jan. 25/26 Investment Decision-Making and Risk and Return
Chapter 6 (Why NPV Leads to Better Investment Decisions than Other Criteria)
Chapter 7 (Making Investment Decisions With the NPV Rule)
Chapter 8 (Introduction to Risk, Return, and the Cost of Capital)
HW #1 will be distributed in this class

Feb. 8/9 Risk and Return, Capital Budgeting and Risk, and Financial Policy
HW #1 due
Chapter 9 (Risk and Return)
Chapter 10 (Capital Budgeting and Risk)
Readings Packet: Financial Policy: Issues in Capital Structure Choice, pp. 38-45 of Morgan Stanley Roundtable on Capital Structure and Payout Policy, pp. 13-23 of How Do CFOs Make Capital Budgeting and Capital Structure Decisions, and The Capital Structure Puzzle: The Evidence Revisited
(Chapter 18, 19, and 21 are recommended as background reading for the financial policy discussion)
Midterm Exam will be distributed in this class

Feb. 22/23 Midterm, Capital Budgeting Case, Stock Valuation, and Financing and Valuation
Midterm Exam due - Discussion of Midterm Exam
Diamond Chemicals PLC (A) case (readings packet)
Chapter 5 (The Value of Common Stocks)
Chapter 20 (Financing and Valuation)
Group Valuation Project will be distributed in this class

Mar. 7/8 Cost of Capital Case, Financing and Valuation, and Business Valuation
Marriott Corporation: Cost of Capital (Abridged) case (readings packet)
Chapter 20 continued
Readings Packet: Corporate Capital Costs: A Practitioner's Guide, The Corporate Uses of Beta, and Best Practices in Estimating Cost of Capital, Note on Business Valuation and Choosing the Right Valuation Approach

Apr. 4/5 Valuation Case and Financing Corporations
American Chemical Corporation case
Chapter 14 (Efficient Markets and Behavioral Finance)
Chapter 15 (An Overview of Corporate Financing)
Chapter 16 (How Corporations Issue Securities)
Course Review/Review for Final Exam

Apr. 18/19 Final Exams and
Final Exam
Group Valuation Report due
Discussion of Group Valuation Case
Readings Packet: Note on Dividend Policy, pp. 45-53 of Morgan Stanley Roundtable on Capital Structure and Payout Policy, Note on Stock Price Reactions to Financing Decisions
Chapter 17 is also recommended as background

Study Guidelines

Most students find this course very demanding. I strongly urge you to work consistently throughout the semester. I also encourage you to form study groups. To maximize the benefits from this class you should:

1) Read the relevant textbook chapter, case, article, note, and/or handout prior to each class and review these materials again after class.

2) Work the end-of-chapter problems in the text. This will enhance your understanding of the lectures, and help prepare you for the types of questions that you will see on the exams.

3) If, after doing the above, you are having difficulty grasping concepts from the course, contact me as soon as possible. Do not wait until just before the exams. The material in this course is cumulative. If you don't understand a concept early in the course, it will affect your ability to understand the subsequent material.