Fall Semester 2008 FIN 357: Business Finance

Unique 03205: MW 12:30 pm – 2:00 pm, UTC 1.116 Unique 03195: MW 2:00 pm – 3:30 pm, CBA 4.332

Instructor: Dr. Ramesh K. S. Rao

Office: CBA 6.304E

Office Hours: Mondays and Wednesdays 10:30 am.-11:15am and by appointment.

Telephone: 475-8756

E-mail: ramesh.rao@mccombs.utexas.edu

Teaching Assistant: Ignacio Iratchet

Office: TBA

Office hours: Tuesdays and Thursdays 11:00 am to 12:30 pm

Telephone number: (512) 669-2308

E-mail: <u>ignacio.iratchet@mba09.mccombs.utexas.edu</u>

Course Objectives

This course has the following objectives:

- To introduce the concepts and theories of modern financial management,
- To develop an appreciation for the usefulness of these theories for financial decision making
- To develop the student's financial decision-making skills,
- To provide an overview of current financial management theories and practices.

Required Materials

Text: <u>Corporate Finance</u> by Ross, Westerfield and Jaffe, 8th ed. McGraw-Hill Irwin, 2007 (ISBN: 978-0-07-333718-0)

Supplemental Chapters: Selected chapters (available on Blackboard) from <u>Financial Management</u>, <u>Concepts and Applications</u>, <u>3rd ed.</u>, 1995, Ramesh K.S. Rao, SouthWestern Publishing Co., Cincinnati, a division of International Thompson.

Course Structure:

The course consists of lectures, quizzes (three), a mid-term exam, and a comprehensive final exam.

Lectures: The lectures are designed to provide an understanding of the major elements of finance. The emphasis is on the logic underlying each concept, on

how each concept is used in finance and on how the concepts are interrelated. The lectures are not note-taking drills; rather, they are dynamic sessions in which information is presented by the instructor via visual aids and through direct interaction with the class. Lecture Notes are posted on Blackboard. Internet usage during class lectures is not allowed.

Quizzes (3 quizzes, 50 points each): These in-class quizzes will be announced in advance; details will be discussed in class.

Exams (250 points) (Midterm, 100 points and Final, 150 points): Each exam will contain two sections, Section I with multiple choice questions (quantitative and qualitative) and Section II with "short answer" questions (qualitative and quantitative). Students who understand and solve the recommended problems should have little difficulty in answering the quantitative problems in the exams.

A *sample* midterm is posted on Blackboard (these may not reflect the precise scope of *your* exam). Note that the sample exam is just to illustrate the format of the exam. The actual exam may vary in the level of difficulty or number of questions. The final is comprehensive (same format as midterm). No sample final exam will be provided.

Course Policies and Administrative Procedures

Grade Appeals: All grades are assigned after a careful examination of the work submitted. Any grade disputes for quizzes should be submitted in writing to the instructor after 24 hours but *within one week* of the receipt of the disputed quiz. No adjustments will be made after this one-week period. Appeals to grading of mid-term exams can be made after 24 hours but *less than two weeks* from the time when the grades are put up. The appeals should be made in writing to the TA. The final exam will not be returned. Students wanting to review their final or appeal their overall semester grade must do so with the TA during the first two weeks of the following semester. Exams will be destroyed after that period.

Exam Rules: Download from Blackboard and bring Time Value tables. You can also bring one formula sheet (one-side, 9" x 11"). Writing down any information other than formulas will be considered cheating.

No laptops are permitted during the exams. Calculators where you can write formulas or type in text are not allowed.

No exceptions to rescheduling the midterm and final exam dates (internship searches and travel are not acceptable excuses; you have plenty of time to plan in advance). Students missing exams for valid (e.g., medical /bereavement) reasons must notify the instructor in advance, where possible, and provide documentation if requested (they will have the final exam weighted proportionally more).

Scholastic Dishonesty: Policy on Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the

University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

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

There will be no sample final exam provided. Also, the final exams will be retained by the instructor until the second week of the next semester. At this time they will be destroyed and students will not be able to review their exam.

Tentative Course Outline

In the schedule below "RWJ" refers to the Ross, Westerfield and Jaffe text (8th edition), and "Rao Chapter" refers to chapters in the Rao text (available on Blackboard and in the Copy Center).

MODULE 1 (approx: 6 classes)

August : W27

September: M01 (no classes, Labor day), W03, M08, W10, M15, W17

Introduction to Corporate Finance, Discussion of Course Structure and Policies

RWJ Chapter 1. Introduction to Corporate Finance

Readings:

Rao Chapter 1. The Firm and its Environment **Rao Chapter 2**. Maximizing Stockholders' Welfare

Value

RWJ Chapter 4. Net Present Value (Discounted Cash Flow Valuation)

RWJ Chapter 5. How to Value Bonds and Stocks

Recommended problems from RWJ textbook:

<u>Chapter 4</u>: Problems 3, 6, 8, 10, 12, 17, 19, 26, 27, 29, 33, 36, 41, 50

<u>Chapter 5</u>: Problems 4, 6, 9, 10, 11, 14, 16, 17, 26, 28

Printer-friendly time value tables and time value formulas posted on Blackboard.

"Financial Functions in Excel," posted on Blackboard

QUIZ 1: September M22

MODULE II (approx: 5 classes)

September: W24, M29

October : W01, M06, W08

Capital Budgeting

RWJ Chapter 6. Some Alternative Investment Rules (Net Present Value

and Other Investment Rules)

RWJ Chapter 7. Net Present Value and Capital Budgeting (Making

Capital Investment Decisions)

Recommended problems from RWJ textbook:

<u>Chapter 6</u>: Problems 2, 4, 7, 9, 13, 26, 27, 28

<u>Chapter 7</u>: Problems 1, 3, 7, 9, 10, 12, 18, 21, 22, 31

QUIZ 2: October M13

MODULE III (approx: 6 classes)

October : W15, M20, W22, M27, W29

November: M03

Risk

RWJ Chapter 9. Capital Market Theory: An Overview (Risk and Return:

Lessons from Market History)

RWJ Chapter 10. Return and Risk: The Capital-Asset-Pricing Model

Recommended problems from RWJ textbook:

Chapter 9: Problems 1, 4, 7, 10, 14, 15, 23, 25

Chapter 10: Problems 2, 4, 5, 10, 11, 13, 16, 19, 32, 33

MIDTERM EXAM (November, Wednesday 5)

Covers all materials up to and including Chapter 10 of RWJ and other listed readings. Make sure that you review the Exam rules and procedures listed earlier.

RWJ Chapter 12. Risk, Cost of Capital, and Capital Budgeting

Recommended problems from RWJ textbook:

<u>Chapter 12</u>: Problems 1, 2, 3, 4, 5, 6, 7, 10, 12, 13

MODULE IV (approx: 4 classes)

November : M10, W12, M17, W19

Capital Structure, Financing Decisions, and Market Efficiency

RWJ Chapter 15. Capital Structure: Basic Concepts

RWJ Chapter 13. Corporate-Financing Decisions and Efficient Capital Markets

RWJ Chapter 14. Long-Term Financing: An Introduction

RWJ Chapter 19. Issuing Securities to the Public

RWJ Chapter 20. Long Term Debt

Recommended problems from RWJ textbook:

Chapter 15: Problems 5, 6, 8, 12, 13, 16, 17, 20, 21, 24

<u>Chapter 13</u>: Problems 1, 3, 4, 7, 8, 10, 13, 14, 19, 21 (Concept Questions)

<u>Chapter 14</u>: Problems 1, 2, 4, 5, 6, 7

<u>Chapter 19:</u> Problems 1, 2, 3, 13, 14, 15, 17, 18

Chapter 20: Problems 1, 2, 3, 4, 5, 6, 7, 8

QUIZ 3: November M24

MODULE V (approx: 4 classes)

November: W26

December : M01, W03 (F05: last day of classes)

Financial Distress and Dividend Policy

RWJ Chapter 18. Dividend Policy: Why Does It Matter?

Rao Chapter 16. Resolving Financial Distress

Recommended problems from RWJ textbook:

Chapter 18: Problems 6, 7, 8, 9, 14, 15, 16, 18, 20, 21

Final Exam Review

(Time permitting) Overview of Miscellaneous Topics

FINAL EXAM (COMPREHENSIVE)

Make sure that you again review Exam Policies