



BA 285T – FINANCIAL MANAGEMENT

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COURSE OBJECTIVES

BA 285T provides an introduction to fundamental concepts in finance. These concepts provide a framework for analyzing capital budgeting decisions (the investment decision). The underlying topics (such as the goal of the firm, time value of money, modern portfolio theory, cash flows and cost of capital) are crucial to understanding concepts that you will encounter in later semesters, as well as reaching our goal of understanding capital budgeting. This course introduces students to these concepts and their application through a combination of lectures and problems.

LEADERSHIP AND THIS COURSE

The Texas MBA program is designed to develop influential business leaders. The MBA Program has identified four fundamental and broad pillars of leadership: knowledge and understanding, communication and collaboration, responsibility and integrity, and a worldview of business and society.

In this course, you will enhance your knowledge and understanding of financial decision making. Regardless of whether you want to be a financial analyst or a marketing executive, you must understand the language of finance. In addition, if your job as an executive is to maximize shareholder value, you must understand how value is created. I urge you to read on your own (The Wall Street Journal, Barron's, Business Week, etc.) so that you become immersed in the language.

MATERIALS AND PREREQUISITE

Text

Corporate Finance, by Jonathan Berk and Peter DeMarzo (Pearson / Addison Wesley, 2007)

Packet

Corporate Finance, by Sanford J Leeds (2009)

Calculator

You will need a business calculator for this class. The calculator should have the following keys: IRR, n, i, PV, PMT, FV, and CF. As long as those keys are present, the calculator is fine. If you may consider taking the CFA exam in the future, I recommend the HP 12c (this calculator is the finance industry standard and one of only two calculators that may be used on the CFA exam). The other calculator which is permissible for the CFA exam is the Texas Instruments BA II Plus. You should bring a financial calculator to every one of our class meetings.

Prerequisite

This is a first semester course in the full-time MBA program and enrollment is limited to students enrolled in this program.

PURPOSE OF THIS SYLLABUS

I have several goals in writing this syllabus:

1. to give you an idea of dates (to allow you to plan your semester);
2. to inform you of the topics we will cover and the work that you must complete; and
3. to explain my expectations (and to give you examples of things that have gone wrong in the past, such as students being habitually late or working together on individual projects).

COMMENTS ABOUT OFFICE HOURS

I plan on having six office hours per week – more than is required. Of course, there may be times that I have to cancel some office hours due to conflicts. I will also have some additional office hours before the exam. Office hours are first-come, first-served.

I have scheduled my office hours at times that you are not in class. Unless there is something highly unusual (or very personal), I will need to have all meetings during office hours. I am in class up to 19 hours per week in Austin (the Core plus a second-year Fund class), I teach in Dallas this semester, I have six office hours and I have many other duties around the school (as well as outside presentations, etc.).

If you use office hours and others are waiting, I try to limit meetings to ten minutes. My experience has been that students get very frustrated if they show up for office hours and one person takes 45 minutes. If no one is waiting to see me, I will be happy to work or visit with you for as long as you need. If you are “evicted” after ten minutes, you are welcome to get back in line. Historically, students have really appreciated this policy.

COURSE GRADING

Final Exam: 50%

Quizzes: 40%

Case: 10%

Grades: The target grade distribution is 3.3 (+ / - .05). In other words, the overall class grade should be somewhere between 3.25 and 3.35. Individual grades can also be adversely affected by violations of the Professionalism Policy (described below).

Exam: Your final exam will be approximately 70% quantitative, but you will receive more detail before the exam (and the quantitative percentage could change). I do not release old exams. I have found that releasing old exams is problematic because (1) it results in people studying “to the exam” rather than studying to learn; and (2) students inevitably feel that old exams are easier than the current exam. In addition, I do not allow students to keep their exams. This maintains the fairness of exams, since you know that no one has seen old exams. If, for any reason, you should come in contact with an old exam, I request that you (1) not review it; and (2) notify me immediately.

Quizzes: You will be given six quizzes (although if we fall behind, I reserve the right to decrease this to five quizzes). Your lowest quiz grade will be dropped. The average of your remaining quiz grades will count for 40% of your final grade. There are no make-ups on quizzes. Quizzes will cover material that we have already covered in class. They will be closed book. They will be given at the beginning of class.

PLEASE NOTE: The quizzes and exams are timed. (If you arrive late, you will not be given additional time.) At the end of each quiz and exam, you will be instructed to stop writing. Any writing that is done after this instruction will result in a grade of zero and a referral to the Dean of Students. In addition, please do not discuss quizzes with members of other cohorts, as you will all be taking the quizzes at different times. Supplying any information to someone who has not yet taken a quiz is an act of academic dishonesty. Similarly, receiving such information is also an act of academic dishonesty.

Exam Date: The final exam will be administered on October 5th. Your exam will look very similar to the homework and the lectures (and slides). The exam is closed book.

Case: You will receive a case and you will have one week to turn in your answer. Your answer is limited to two pages of text and one spreadsheet page. You will receive more information about this assignment as it gets closer. Cases will be done with your team. Your team will submit one solution. Everyone on your team will receive

one grade. I do not get involved with team dynamics or free-rider problems. I assume that you will manage these issues.

How Grades Can Be Lowered

Finally, please realize that I lower grades based on violations of the Professionalism Policy (described below) and the Honor Code (also described below). This is nothing I want to do and hopefully this will not occur. **It is particularly important to me that you arrive on time, stay for the entire class, keep your laptops closed and respect your peers. As the semester progresses, you will realize that I will hold you to a very high standard, but I will hold myself (and how this class is presented) to an even higher one.**

I realize that things happen and you may be late for class one time. (Obviously, if every person is late once, we will have a tremendous number of distractions from our class.) I will not penalize anyone who is late once. But, I will lower your final course grade one full letter grade (e.g., if you made an A-, you will receive a B-) for each additional time you walk in late. We only have 14 classes together and this is my way of encouraging you to be on time. (I have taught thousands of students and I have only had one person take me up on my offer to lower their grade.)

DESCRIPTION OF COURSE REQUIREMENTS

Final Exam

My exams tend to include most of the material that I have taught (rather than just a few big questions). The typical final exam might have approximately 12 – 15 quantitative problems and five qualitative questions. The qualitative questions are usually short answer or multiple choice. The difficulty level of the multiple choice questions is intended to parallel the level of question that you could face on the CFA® exam. From a point perspective, the average test is 70% quantitative. (This can vary.)

You should realize that I test on what I teach. In order to prepare, you should review your packet notes (including slides), class notes, the uncollected homework problems that I have written and the uncollected problems from the back of the chapters. In addition, I will give you a slide deck to help you review the quantitative subjects on the final exam. There will be a taped lecture to accompany those slides. The review slides and taped review will be posted by September 24th.

Quizzes

Quizzes will cover material that you have seen in prior classes. Quizzes are intended to give you incentive to stay up to speed in this class and to quickly realize if you are falling behind your peers. You will be given a quiz on Units 3, 4, 6, 8, 9 and 10. The quiz schedule can be found later in the syllabus. The quizzes will be short (average 10 – 15 minutes) and will only cover the single unit that is being tested (i.e., 3, 4, 6, 8, 9 and 10).

Case

You will be given a case that will involve capital budgeting and you will need to summarize your thoughts in two pages. You will be limited to two pages of text and one spreadsheet page. You will receive further information about this case during the semester. My goal is to use this as a learning exercise, rather than a grade differentiator. While I expect you to submit your best work, I expect most teams to receive at least 9 out of 10 on this assignment. (With that said, every so often, there are outliers if a team turns in really poor work.) My point is that the case should be a learning exercise and you should use a reasonable amount of time.

Please NOTE: The case will be due at 5 PM on the day before Class 14. You will be given the case one week earlier. But, we will only finish Capital Budgeting in Class 13. Your case will be due one day after Class 13 (in other words, there are only two days between Classes 13 and 14). Please budget four hours to complete this task. Since we will discuss the case in Class 14, it must be submitted early enough for me to review your work prior to class.

Your case should be submitted by just one person on your team. It should be sent to leedspapers@gmail.com. Please do not send this to my school email account.

Uncollected Homework

There are two types of uncollected homework: problems that I have written (problems and solutions are on Blackboard) and problems at the end of the chapters (with solutions posted on Blackboard). These problems will help to reinforce the concepts we are studying. They will also help you to prepare for the quizzes and the exam.

HOW TO PREPARE FOR CLASS AND EXAMS

Prior to your first class, you need to prepare by listening to the taped lecture that is posted on Blackboard. This taped lecture will cover Units 1 and 2. During our first class, we will apply these concepts by using “mini-cases” which I have written. Throughout the semester, it is particularly important that you spend time studying after class (rather than before). After class, you should review the packet and notes and work the homework.

You should use the text if you did not understand what we discussed or if you need more information. (Please understand: I will **not** hold you responsible for topics covered in the text that are not in the packet or the homework. The packet and class notes contain everything that you need to know.)

Please NOTE: it is always possible that we will finish a lecture quicker than planned. As a result, you should always bring your packet notes for that day, as well as one lecture ahead.

I will not collect homework. Homework should be done because you want to learn the material, rather than because you want to receive a check mark. Furthermore, I expect you to have discipline, rather than needing me to “force” you to do your homework.

I am a firm believer that you learn finance by working problems. If you attend class and work the problems in a timely fashion, you will do well. If you don't work the problems in a timely fashion, this will be a very difficult class. Study the course packet consistently.

Since you won't have time to do the homework problems again and again, let me suggest a good way to study. After you work the problems, every few days you should go back and re-read the questions. By doing this, you will trigger the thought process that you had to go through in order to answer the question. And always remember, it's not a matter of whether you are able to answer the question the first time you see it...the issue is whether you can recognize it and answer the question in the future (and whether you can apply these concepts to the real world).

KEY DATES FOR SEMESTER

Class 5: Quiz on Unit 3 (Time Value of Money)

Class 7: Quiz on Unit 4 (Applications of Time Value of Money)

Class 8: Quiz on Unit 6 (Math Behind Risk and Return)

Class 11: Quiz on Unit 8 (Intro to Capital Budgeting)

Class 12: Quiz on Unit 9 (Free Cash Flow)

Class 14: Quiz on Unit 10 (WACC)

Case: Due 5 PM on day before Class 14

Final exam – October 5th

THERE ARE NO MAKE-UP EXAMS OR QUIZZES. LATE CASES ARE NOT ACCEPTED.

Class Number	Topic	Packet Unit	Text Chapter	Practice Problems (Text)
1	Introduction to Corporate Finance; Maximizing Shareholder Value; Introduction to Issues Affecting the Firm's Goal (of Maximizing S/h Value): Principal / Agency Issues and Corporate Governance	1 and 2	1 and 29	Chap 1: 1,2,4,6,7 Chap 29: 1, 3, 5, 6
2	Time Value of Money (FV of Sum, Future Value of Annuity, PV of Sum, Annuity, Perpetuity, Growing Perpetuity, Growing Annuity)	3	4 and 5	Chap 3: 4; Chap 4: 3-10, 15-17,19,20-26,30,31,36,38
3	Finish Time Value of Money; also Annuity Due vs Ordinary Annuity, Effective Rates vs APRs, Real Rates vs Nominal Rates	3		Chap 5: 1-7,16, 18,30-32
4	Applications of Time Value of Money: Loans (pure discount loans, interest only loans, amortizing loans), bonds (pricing and yields), dividend discount model	4	8 and 9	Chap 4: 18, 27 - 29; Chap 5: 9-12,18,19, 21-23; Chap 8: 1,2,3A,5A,5B,6-10,12; Chap 9: 1-9,11,14,21
5	Finish Applications of Time Value of Money	4		
6	Efficient Market Hypothesis (1/2 class) and Catch up / Review	5	10	Chap 10: 23
6	Basic Math Behind Risk and Return (arithmetic and geometric means, variance and standard deviation, covariance and correlation coefficient)	6	11	Chap 10: 1-3 Chap 11: 1,3-8,13-14
7	Modern Portfolio Theory and CAPM and Diversifiable Risk	7	12	Chap 12: 1,6-9, 15-19
8	Catch Up / Start Intro to Cap Budgeting			
9	Introduction to Capital Budgeting (NPV, IRR, Payback, Discounted Payback, Accounting Rate of Return, Breakeven)	8	3 and 6	Chap 3: 6-7; Chap 4: 11-14,32-34,37; Chap 5: 24; Chap 6: 1 - 5, 8-10, 14-20
10	Understanding Free Cash Flow (Operating Cash Flow, Cap Ex, NWC); Difference from Accounting Earnings	9	7	
11	WACC	10	18	Chap 18: 5A, 5B,
12	Capital Structure and Effect of Leverage on Cost of Equity	11		
13	Capital Budgeting -- Putting it All Together	12	7	Chap 7: 1-10,12,13
14	Capital Budgeting Case			

NOTE: On this page, I have supplied you with some relevant practice problems from the text. But, I have also written my own problems for each unit in the packet. These can be found on Blackboard.

McCombs Classroom Professionalism Policy

MY COMMENTS ABOUT THE PROFESSIONALISM POLICY: I will expect you to comply with the Professionalism Policy and you should expect me to comply with it. I firmly believe that professional behavior (being on time, staying for the full class, no laptops) is crucial to a culture of learning. Additionally, this simple policy will do nothing to stop us from laughing in class and enjoying the learning process.

The Policy:

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA 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 MBA 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 minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
 - **Students are fully prepared for each class.** Much of the learning in the Texas MBA 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. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
 - **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. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.
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Academic Dishonesty

I have 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.mcombs.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 not try to seek guidance about exams or types of questions from students who have previously taken this class. You should not do anything to aid future students in the testing process. Helping fellow students learn is an important part of our culture. I believe that it is easy to distinguish the attempt to help someone learn as opposed to the attempt to pass on information about exams.

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."

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, 471-6441 TTY or via e-mail if you have any questions.