FIN 320F

TITLE: Foundations of Finance

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Course Description

This course develops your ability to use economic decision tools in a market environment. This will by done by giving you the knowledge and tools to understand market structure and functions, to apply cash flow analysis to project and financing decisions, and to understand and use the tools of capital budgeting and investment management.

Markets are where individuals and institutions come together to value and trade many types of assets and claims. Making good economic decisions involves integrating behavioral, economic, and political information into a qualitative and quantitative decision process. While a main focus of this course is business decision making, the course also shows that the market-valuation approach is essential for all market participants, including investors, governments, and non-profits. To successfully complete this course, you need to understand the major aspects of markets, how markets guide managerial decisions, and ultimately how markets determine success or failure of any endeavor.

Course Outcomes

While there are hundreds of definitions and equations in this course, they are all meant to help you develop a few major insights into how to invest money to accomplish your goals.

A market is a structure within which individuals and institutions buy and sell goods and services. This is a simple concept. However, this concept has big implications for those making managerial decisions. The following implications will be woven into this course:

- Market values: Choice and competition exist in a market environment and affect all decisions, even those that may appear strictly internal to the company or not to involve profit at all. Business managers must value projects from the viewpoint of those outside of the company whose choice determines the company's survival and profitability (investors and customers). Non-profit entities and governments must obtain resources from markets and use those assets to produce the most value for their stakeholders.
- Cash flow: There are two types of information available to decision makers. First, accounting statements follow specific rules that develop internally focused information for control and externally focused information for reporting. Second, economic information focuses on uncertain future cash flows. Market decisions are based on cash flow, not accounting information. This course concentrates on cash flow analysis, but brings in enough accounting information to clarify the difference.
- Time value of money: Interest rates exist, and the value of a dollar expended today is not the same as a dollar received in three years. Decision makers must be able to relate investments made in the current period with cash inflows expected to be received from investments at a future point in time.
- Risk: Most projects extend into an uncertain future. Managers must develop procedures for factoring this uncertainty into cash flow estimates and into the interest rate used to relate cash flows at different points in time.
- Opportunity cost: All projects must provide an acceptable rate of return. This return, often called the required

rate of return, the discount rate, the hurdle rate, and more, is the opportunity cost. The opportunity cost is the basis for all decisions. Decision makers must determine the acceptable rate of return for their projects.

Accessing the Course

Log in to the learning management system, Engage, at the following URL:
https://engage.mccombs.utexas.edu/learn/

Required Materials

Textbook: Parrino, R., Kidwell, D., & Bates, T. (2014). *Essentials of Corporate Finance*. Hoboken, N.J. John Wiley & Sons, Inc.

The textbook is available online in the Finance course through VitalSource. Follow the directions here to access the textbook:

- Click on the link here http://www.wiley.com/WileyCDA/Section/id-822619.html and you will be prompted to purchase the textbook.
- You will then receive a link to open a new window and receive your VitalSource code to use in the course.
- Once you have the code, you will be prompted to register and enter the code when you try accessing the textbook within the course.

Library Articles

Throughout the course you will encounter the following articles:

- Mind & Matter: When Bad Theories Happen to Good Scientists
- Problems with Scientific Research: How Science Goes Wrong
- Why Government Can't Run a Business
- Doing Business: Measures of Business Regulation
- How could they have done it?
- Making it in America
- Split personality: Social responsibility and need for low cost clash at Stride Rite
- Good ethics is good business: The case of Salomon brothers
- Inequality in America: Gini in the bottle
- The Irish famine: Opening old wounds
- Solyndra and the White House: Letting Sunlight In
- The Protocol Society
- Value creation: The ultimate measure by which a company is judged
- The value of value: Fashions are changing in the stock market
- Taking the long view: The pursuit of shareholder value is attracting criticism—not all of it is foolish
- Efficiency and beyond: The efficient-markets hypothesis has underpinned many of the financial industry's models for years. After the crash, what remains of it?
- The Very Long View
- 5 Things You Always Wanted to Know about Inflation Statistics
- Special Report: Mutual Funds Quarterly Review—Don't Play Favorites: Seven Reasons to Index
- Getting Going: On Wall Street, Look Both Ways When Investing
- Why trade is good for you

Course Overview

The course consists of fifteen units divided into seven parts. It is recommended to plan your course completion around this course structure.

<table>
<tr><th>Units</th><th>Topics</th><th>Assignments</th></tr>
<tr><td>Over
-
view</td><td>• About this Course
• Course Introductions</td><td>Reading
• None

Assessment
• None</td></tr>
<tr><td colspan="3">Part I: The Economy: Market participants operate in a complex social, legal, political, and behavioral environment. Decision makers must understand how this environment determines the structure and goals of businesses.</td></tr>
<tr><td>1</td><td>• Human Nature and Economic Activity

Main Issue: What forces shape corporate decision-making?
Comments: All organizations, business, governments, NGOs, religions, and more are composed of humans. This unit builds an understanding of human nature, which is then used to explain markets and profit.</td><td>Readings
• Selected Articles:
o Mind & Matter: When Bad Theories Happen to Good Scientists
o Problems with Scientific Research: How Science Goes Wrong
o Why Government Can't Run a Business
o Doing Business: Measures of Business Regulation

Assessment
• Short Answer Questions</td></tr>
<tr><td>2</td><td>• Human Nature and the Ethics of Decision Making

Main Issue: What ethic guides economic decision-making?
Comments: Unit 2 builds on Unit 1 and defines the ethical framework in which market/business decisions are made. Surprisingly, business ethics is not an oxymoron!</td><td>Readings
• Essentials of Corporate Finance:
o Section 1.6: The Importance of Ethics in Business
• Selected Articles:
o How could they have done it?
o Making it in America
o Split personality: Social responsibility and need for low cost clash at Stride Rite
o Good ethics is good business: The case of Salomon brothers
o Inequality in America: Gini in the bottle
o The Irish famine: Opening old wounds
o Solyndra and the White House: Letting Sunlight In
Assessment
• Peer-Reviewed Essay</td></tr>
<tr><td colspan="3">Part II: The Business Decision Framework: Business information is organized into financial statements--</td></tr>
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<table>
<tr><td colspan="3">“The Books.” Students should be able to understand the information in these statements as the basis for understanding the current condition of a business.</td></tr>
<tr><td>3</td><td>• Structuring the Business Firm

Main Issue: What is the goal of a business?
Comments: With the foundation of human nature, markets, and ethics, you can now define the goal of a business and how it’s governed.</td><td>Readings
• Essentials of Corporate Finance:
o Section 1.1: The Role of the Financial Manager
o Section 1.2: Forms of Business Organization
o Section 1.3: Managing the Financial Function
o Section 1.4: The Goal of the Firm
o Section 1.5: Agency Conflicts

Assessment
• Short Answer Questions</td></tr>
<tr><td>4</td><td>• The Accounting Framework

Main Issue: How are managerial decisions reflected in the accounting statements?
Comments: Managers use two information systems: 1) accounting and 2) economic. These are interrelated and you can’t understand one without the other. In this unit you see how major managerial decisions are reflected in the balance sheet and income statement.</td><td>Readings
• Essentials of Corporate Finance:
o Chapter 3 Introduction
o Section 3.1: Financial Statements and Accounting Principles
o Section 3.2: The Balance Sheet
o Section 3.4: The Income Statement and the Statement of Retained Earnings
o Section 3.6: Tying Together the Financial Statements
o Section 3.8: Federal Income Tax
• Selected Article:
o The Protocol Society

Assessment
• Quiz</td></tr>
<tr><td colspan="3">Part III: Economic Value: Market prices are based on expectations of the future. Decision makers should be able to estimate the future cash inflows and outflows resulting from their decisions and use economic decision rules—Net Present Value and Internal Rate of Return—to identify the best decisions.</td></tr>
<tr><td>5</td><td>• Economic Value

Main Issue: What is it worth?
Comments: This unit sets out the logic and process of economic evaluation. Any decision involves a comparison of the benefits with the costs of the decision. This cost-benefit analysis is called Net Present Value.</td><td>Readings
• Essentials of Corporate Finance:
o Section 9.2: Net Present Value
o Section 9.5: Internal Rate of Return

Assessment
• Quiz</td></tr>
<tr><td>6</td><td>• Applying Time Value Techniques

Main Issue: How do managers analyze cash flows through</td><td>Readings
• Essentials of Corporate Finance:
o Section 5.1: The Time Value of Money
o Section 5.2: Future Value and Compounding</td></tr>
</table>

<table>
<tr><td></td><td>time?
Comments: This unit expands the concept of time value into a useful decision framework by introducing multiple cash flows, annuities, perpetuities, and compounding.</td><td>o Section 5.3: Present Value and Discounting
o Section 5.4: Multiple Cash Flows
o Section 5.5: Level Cash Flows: Annuities and Perpetuities
o Section 5.6: Cash Flows that Grow at a Constant Rate
o Section 5.7: The Effective Annual Interest Rate

Assessment
• Quiz</td></tr>
<tr><td colspan="3">Part IV: Valuing Financial Securities: Companies, governments, and not-for-profit entities raise capital by issuing financial securities—stocks and bonds. The market values of these securities are determined by the investors' view of future cash flows.</td></tr>
<tr><td>7</td><td>• Valuing the Corporation

Main issue: How do investors value a corporation?
Comments: This unit lays the foundation for all of our future work by developing the economic balance sheet and linking real assets and financial assets. It also defines important elements of the capital markets.</td><td>Readings
• Essentials of Corporate Finance:
o Section 2.3: Types of Financial Markets
o Section 3.3: Market Value Versus Book Value
• Selected Articles:
o Value creation: The ultimate measure by which a company is judged
o The value of value: Fashions are changing in the stock market
o Taking the long view: The pursuit of shareholder value is attracting criticism—not all of it is foolish
o Efficiency and beyond: The efficient-markets hypothesis has underpinned many of the financial industry's models for years. After the crash, what remains of it?

Assessments
• Peer-Reviewed Essay
• Quiz</td></tr>
<tr><td>8</td><td>• Valuing Bonds

Main issue: How do investors value bonds?
Comments: This unit covers bonds, their nature, values, and risks. A critical focus of the unit is on interest rate risk and default risk.</td><td>Readings
• Essentials of Corporate Finance:
o Section 7.1: Corporate Bonds
o Section 7.2: Bond Valuation
o Section 7.3: Bond Yields
o Section 7.4: Interest Rate Risk
o Section 7.5: The Structure of Interest Rates

Assessment
• Quiz</td></tr>
<tr><td>9</td><td>• Valuing Equity</td><td>Readings
• Essentials of Corporate Finance:</td></tr>
</table>

<table>
<tr><td></td><td>Main Issue: How do investors determine stock prices?
Comments: The stock price is the major connection between the corporation and the stockholder. This unit's discussion of growth stock, income stock, EPS and P-E ratio is crucial for an understanding of stocks.</td><td>o Section 8.1: The Market for Stocks
o Section 8.2: Common Stock Valuation
o Section 8.3: Stock Valuation: Some simplifying Assumptions
o Section 8.4: Valuing Preferred Stock
• Selected Article:
o The Very Long View

Assessments
• Short Answer Questions
• Quiz</td></tr>
<tr><td colspan="3">Part V: Valuing Non-financial Assets: Every business or organization must invest in long-term productive projects—plant, equipment, technology, major marketing campaigns, outsourcing, offshoring, and more. Project evaluation involves the application of economic decision rules—NPV and IRR—to measure the cost-benefit tradeoff of the project.</td></tr>
<tr><td>10</td><td>• Capital Budgeting Investment Decision Rules

Main Issue: How can managers identify wealth-increasing projects?
Comments: Unit 7 introduced two important decision rules: 1) NPV and 2) IRR. This unit expands your understanding of these rules, and introduces other evaluation methods.</td><td>Readings
• Essentials of Corporate Finance:
o Section 9.1: An Introduction to Capital Budgeting
o Section 9.2: Net Present Value
o Section 9.3: The Payback Period
o Section 9.4: The Accounting Rate of Return
o Section 9.5: Internal Rate of Return
o Section 9.6: Investment Decisions with Capital Rationing
o Section 9.7: Capital Budgeting in Practice

Assessment
• Quiz</td></tr>
<tr><td>11</td><td>• Capital Budgeting Cash Flow Analysis

Main Issue: How can managers identify and organize cash flows for analysis?
Comments: Unit 11 identifies what cash flows are relevant for capital budgeting decisions and how to place these cash flows on a project time line. It also describes special capital budgeting situations.</td><td>Readings
• Essentials of Corporate Finance:
o Section 10.2: Estimating Cash Flows in Practice
o Section 10.1: Calculating Project Cash Flows
o Section 10.3: Forecasting Free Cash Flow
o Section 10.4: Evaluating Projects with Different Lives
o Section 2.6: The Determination of Interest Rate Levels
• Selected Article:
o 5 Things You Always Wanted to Know about Inflation Statistics

Assessment
• Quiz</td></tr>
<tr><td colspan="3">Part VI: Risk and the Cost of Capital: This part shows how the risk-adjusted opportunity cost, more commonly called the discount rate or cost of capital, is calculated.</td></tr>
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12	• Risk and the Opportunity Cost ***Main Issue***: How can managers calculate the opportunity cost for a project? ***Comments:*** This is one of the most important units in the course, as it formally quantifies the opportunity cost, which is at the heart of economic decision making.	**Readings** • *Essentials of Corporate Finance*: o Section 6.1: Risk and Return o Section 6.2: Quantitative Measures of Return o Section 6.3: Variance and Standard Deviation as Measures of Risk o Section 6.4: Risk and Diversification o Section 6.5: Systematic Risk o Section 6.6: Compensation for Bearing Systematic Risk o Section 6.7: The Capital Asset Pricing Model **Assessment** • Quiz
13	• Risk and the Cost of Capital ***Main Issue***: How can managers use security prices to determine a project's opportunity cost? ***Comments:*** The cost of capital is the rate of return that investors require from investing in a company. This cost of capital can be used as the discount rate for corporate projects. This unit takes this concept and quantifies it through the Weighted Average Cost of Capital.	**Readings** • *Essentials of Corporate Finance*: o Section 11.1: The Firm's Overall Cost of Capital o Section 11.2: The Cost of Debt o Section 11.3: The Cost of Equity o Section 11.4: Using the WACC in Practice **Assessment** • Quiz
Part VII: Overview of Global Financial Markets: Investors generally do not hold just one security; they hold a portfolio of different securities from different classes of investment. Investment management focuses on the securities to hold and how to combine them into investment portfolios is the discipline of Investment Management.		
14	• Investment Management Framework ***Main Issue***: How does an investor invest? ***Comments:*** This unit covers investment management. This type of management involves the decisions regarding which securities to hold, and how to combine these securities and other assets into investment portfolios.	**Readings** • *Essentials of Corporate Finance*: o Section 2.4: Market Efficiency o Section 2.1: The Financial System o Section 2.2: Direct Financing o Section 2.3: Types of Financial Markets o Section 2.5: Financial Institutions and Indirect Financing o Section 13.1: Bootstrapping o Section 13.2: Venture Capital o Section 13.3: Initial Public Offering o Section 13. 5: General Cash Offer by a Public Company o Section 13.6: Private Markets and Bank Loans • *Selected Article*: o Special Report: Mutual Funds Quarterly

		Review—Don't Play Favorites: Seven Reasons to Index o Getting Going: On Wall Street, Look Both Ways When Investing **Assessments** • Peer Exchange • Quiz

15	• The Global Environment
	
	Main Issue: How does the global political and economic environment shape economic decisions?
	Comments: This unit uses the balance of payments and exchange rates to define the risks and opportunities of operating in global markets.
		Readings
		• *Essentials of Corporate Finance*:
		    o Section 17.1: Introduction to International Financial Management
		    o Section 17.2: Foreign Exchange Markets
		• *Selected Article*:
		    o Why trade is good for you
		
		Assessments
		• Peer Exchange
		• Quiz

Course Requirements

This course is entirely about employing resources to get a future benefit.

Net Present Value = Benefits of the Investment – Cost of the Investment

You should take your investment in this course seriously and approach it as you would any investment.

Cost of the investment:

- Time: Budget time for this course. Set regular times, such as three sessions per week.
- Effort: Your human capital is your major investment. Work to understand the course material and how it builds a framework for economic decisions.
- Many units contain practice problems. Think through each question or problem before beginning your answer. Once you've completed your answer, check the recommended solution. Make sure that you understand the issues covered in each question before continuing on to the next one.

Benefit of the investment:

- As you progress through this course you should develop an understanding of economic decision making. This is how to employ resources to obtain your goals. If you are seeing only a bunch of disjointed definitions and equations, then you are not developing the understanding and intuition necessary to operate in markets.

Net Present Value:

- Net Present Value is a term you will become very familiar with. It is a measure of how much you have benefited from an investment.
- Very few people study income statements or annuities for pleasure. You are taking this course to make yourself a better decision maker and increase your employability and personal economic welfare. So, as you work through this course ask yourself: How would the skills you're developing:
    - Be attractive to an employer?
    - Help you better manage your own financial affairs?

Code of Ethics

One of the major foundation principles of markets as described by Adam Smith (and covered in Unit 2) is ethical principles: markets not primarily guided by proper standards of behavior will fail. Our academic enterprise is no different. Please review the McCombs Code of Ethics.

http://www.mccombs.utexas.edu/BBA/Code-of-Ethics

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, http://www.utexas.edu/diversity/ddce/ssd/

Grading Criteria

These evaluations are crucial for our course, in that they allow both you and your instructors to see how you are proceeding through the course. Please look on your grade not just as a number but as feedback on how well you have mastered the material.

The quizzes consist of verbal and quantitative multiple-choice questions.

The assessments are short answer questions graded by faculty, a peer-graded essay, or short video essays that you will create and then evaluate the video essays of others.

- 13 Quizzes = 75% of Grade
- 7 Assessments = 25%

Unit Quizzes	Points/ Questions
Unit 3 Quiz	20
Unit 4 Quiz	10
Unit 5 Quiz	20
Unit 6 Quiz	20
Unit 7 Quiz	11
Unit 8 Quiz	20
Unit 9 Quiz	20
Unit 10 Quiz	16
Unit 11 Quiz	20
Unit 12 Quiz	20
Unit 13 Quiz	20
Unit 14 Quiz	20
Unit 15 Quiz	20

Assessments	Points
Unit 1: 3 Short Answer Questions	15
Unit 2: Peer-Reviewed Essay	20
Unit 3: 5 Short Answer Questions	25
Unit 7: Peer-Reviewed Essay	20
Unit 9: 5 Short Answer Questions	9

Unit 14: Peer Exchange	**0***
Unit 15: Peer Exchange	**0***

*Marked for completion.

Peer-Review Essays

Although this is a self-paced course, there are no specific due dates for the two essays. Essays are assigned in **Unit 2** and **Unit 7** of your online course. You must complete prerequisite activities before these assignments are available.

After submitting your paper, you will be responsible for evaluating three of your classmates' papers according to a rubric provided. You will have two weeks from the date you are assigned papers to turn in your evaluation.

When submitting your papers, please submit Word documents and use the following file-naming convention: Assignment_Lastname_Firstinitial, e.g., "Essay1_Doe_J.doc"

Course Grading Scale

Our course will follow the standard academic grading scale.

From	To	Grade	GPA
93	100	A	4.00
90	92.9	A-	3.67
86	89.9	B+	3.33
83	85.9	B	3.00
80	82.9	B-	2.67
76	79.9	C+	2.33
73	75.9	C	2.00
70	72.9	C-	1.67
66	69.9	D+	1.33
63	65.9	D	1.00
60	62.9	D-	0.67
0	59	F	0.00