

**Fall Semester 2015**  
**TEMBA: BA 285T- Financial Management**

Keep this in mind as you go through the course:

*"When you first start to study a field, it seems like you have to memorize a zillion things. You don't. What you need is to identify the core principles -- generally three to twelve of them -- that govern the field. The million things you thought you had to memorize are simply various combinations of the core principles."*

**John Reed** (1887-1920) who performed very poorly in school, but eventually “figured it all out” to graduate from Harvard.

**Instructor: Dr. Ramesh K. S. Rao**

Office: CBA 6.304E

Office Hours: Mondays and Wednesdays, 10:00AM – 12:00PM and by appointment

Telephone number: (512) 475-8756

E-mail: [ramesh.rao@mcombs.utexas.edu](mailto:ramesh.rao@mcombs.utexas.edu)

**Teaching Assistant: Fawad Hussain**

Office: TBA

Office hours: TBA

Telephone number: 713-858-8559

E-mail: [fawad.hussain@mba16.mcombs.utexas.edu](mailto:fawad.hussain@mba16.mcombs.utexas.edu)

**Course Objectives**

This is the first part of a two course sequence. The next course—Valuation—builds on the concepts and techniques that you will learn in this course to address issues in valuation. This first part has the following objectives:

- Introduce the concepts and theories of modern financial management
- Develop an appreciation for the usefulness of these theories for financial decision making
- Increase the student's financial decision-making skills
- Provide an overview of current financial management theories and practices

**Required Materials**

**Required:** Corporate Finance by Ross, Westerfield and Jaffe, 10<sup>th</sup> ed., McGraw-Hill Irwin

**Supplemental:** Selected chapters (available on Canvas) from Financial Management.

Concepts and Applications, 3rd ed., 1995, Ramesh K.S. Rao, SouthWestern Publishing Co., Cincinnati, a division of International Thompson. The required chapters will be scanned and made available to students.

There are two categories of additional readings titled “Readings:” and “Optional.” The first of these includes materials that are very directly connected to the lectures. Reading these will provide you a broader perspective on the topic and consolidate your understanding of the class lectures. The Optional readings are simply additional items that you will find useful. You will not be tested on the optional readings.

### **McCombs Classroom Professionalism Policy**

The highest professional standards are expected of all members of the McCombs School community. The collective class reputation and the value of the Texas MBA/MPA experience hinge on these standards. 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.** Timely arrival ensures that classes are able to start and finish at the scheduled time. Timely 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 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 also their peers who count on them.

**Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged; however, intolerance for the views of others is unacceptable.

**Laptops are to be used only for class work.**

**Phones and wireless devices are turned off.**

### **Academic Dishonesty**

The McCombs School has no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the MBA 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 at <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and within 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 consider the *writing* of all examinations to be an individual effort without any use of books, notes, or other unpermitted aids. Group *preparation* for examinations is acceptable and encouraged.

### **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.

### **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 describes the conduct promoted by the Honor System, 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 in the Student Services Building. Additional information is available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

## Course Structure and Grading

The course consists of lectures, optional homework assignments, two cases and two exams (a midterm and a comprehensive final). Relevant course materials are posted on Canvas.

### **Lectures**

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

### **Homework**

Optional problem-solving practice assignments, with solutions, are available on Canvas. You will be notified through email by the TA as these problem sets become available. These assignments have recommended problems from the RWJ text and some additional problems. **It is important that you work through these problems on your own.** The TA is available to help you with any questions you may have.

### **Exams (300 points)**

- **Midterm exam** (100 points): September 21. The exam will cover relevant text chapters (RWJ and Rao), class lectures, and required readings. A sample midterm is posted on Canvas (this may not reflect the precise scope of your exam).
- **Final Exam** (200 points): October 12. The final exam covers the whole course. The exam will cover relevant text chapters (RWJ and Rao), class lectures, and required readings.

## Course Policies and Administrative Procedures

- **Grades:** All grades are assigned after a careful examination of the work done. Any grade disputes should be submitted in writing to the TA after 24 hours and within two weeks of the receipt of the disputed exam/paper. No adjustments will be made after this two-week period.
- **Extra Problems:** Students can work out additional end-of-chapter problems in the text. Solutions to these problems are posted on Canvas. Students having difficulty with these problems should seek help from the instructor or his assistant.
- **Missed exams:** Students missing exams with valid excuses should notify the instructor, in advance, where possible. They will have the final exam weighted proportionally

- more. Note that work pressures and travel obligations are not considered valid excuses.
- **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.

## Class Schedule

In the schedule below, “RWJ” refers to the Ross, Westerfield and Jaffe text and “Rao Chapter” refers to chapters in the Rao text.

You will not be tested on items under “Optional.” Also, these items are not included in the readings package. You should get them from the instructor.

### Friday, August 21: Austin Intensives

Discussion of Course, Class Procedures, and the "Big Picture."

**RWJ Chapter 1.** Introduction to Corporate Finance

**Rao Chapter 1.** The Firm and its Environment (on Canvas)

**Rao Chapter 2.** Maximizing Stockholders' Welfare (on Canvas)

#### **Readings:**

- Note on the Financial Perspective: What Should Entrepreneurs Know? Harvard Business School, 9-293-045. (Read this now, but the larger context will be meaningful only at the end of this and the valuation course that follows).
- “How to avoid getting lost in the numbers” HBS 9-682-01
- “Small Company Finance: What the Books Don’t Say” HBR 87608

#### **Recommended:**

- In previous years, students have wanted me to discuss in class the philosophy of Libertarianism. Without endorsing this website, I point out that one source of information is <http://www.libertarianism.com/what-it-is.htm>

### Monday, August 31: Operating and Financial Leverage

**Rao Chapter 19:** The Impact of Operating and Financial Decisions on Cash Flows

Application: Wyoming Gas and Electric (on Canvas)

We will study this topic in the context of *profits* to get the underlying intuition. The extension to *cash flows* is straightforward. This module is useful for understand the intuition for capital structure theory which is central to the Valuation course that you will take next.

### Wednesday, September 9: Time Value and Applications

**RWJ Chapter 4:** Discounted Cash Flow Valuation

**Note:** Printer-friendly time value tables, time value formulas, and “Financial Functions in

Excel,” posted on Canvas.

### **Monday, September 14: Bond and Stock Valuation**

**RWJ Chapter 8:** Interest Rates and Bond Valuation

**RWJ Chapter 9:** Stock Valuation

**RWJ Chapter 15:** Long-Term Financing: An Introduction (**read on your own**). You are responsible for this chapter. A brief PP will be posted on Canvas.

### **Monday, September 21: Midterm Exam and Capital Budgeting**

- 6:00-7:30 PM: **Midterm Exam:** Covers all materials up to the last class session. Bring your time value tables.
- 7:45-9:15 Begin Capital Budgeting

### **Monday, September 28: Capital Budgeting**

**RWJ Chapter 5:** Net Present Value and Other Investment Rules

**RWJ Chapter 6:** Making Capital Investment Decisions

#### **Readings:**

- Supplement on Capital Budgeting under Inflation, (on Canvas)
- Applied Research Technologies (on Canvas)—why licensing is often used to increase value.

#### **Optional:**

- Rao, Ramesh K. S. and Neeraj Bharadwaj, 2008, “Marketing Initiatives, Expected Cash Flows, and Shareholders’ Wealth,” Journal of Marketing, January 2008.
- Rao, Ramesh K. S. and Genaro J. Gutierrez, 2010, “Shareholders’ Wealth Maximizing Operating Decisions and Risk Management Practices in a Mixed Contracts Economy,” Production and Operations Management.

### **Monday, October 5: Risk and Expected Return, Course Review and Wrap-up**

**RWJ Chapter 11:** Return and Risk: The Capital Asset Pricing Model (CAPM)

### **October 12: Final Exam and Optional Lecture**

#### **6:-8:00 PM Final Exam**

Optional Lecture on Capital Structure and Financial Distress

Optional: **RWJ Chapter 16:** Capital Structure: Basic Concepts a preview of what will be central to the Valuation course that you will be taking next).

Optional: **Rao Chapter 16:** Resolving Financial Distress (on Canvas)