FIN 320F Foundations of Finance Fall 2017

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Course Description
This course develops your ability to use economic decision tools in a market environment. Making good economic decisions involves integrating behavioral, economic, accounting and political information into a qualitative and quantitative decision process. This valuation approach is essential for all market participants, including investors, governments, and non-profits.

Course Concepts
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 economic decisions. The following issues will be woven into this course:

• Market values: Choice and competition 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 (investors and customers) whose choice determines the company’s survival and profitability. Non-profits and governments must obtain resources from markets and use those assets to produce the most value for their stakeholders.

• Cash flow: Cash is truly king! Market decisions are based on expected future cash flow.

• Time value of money: A dollar received today is worth more than a dollar received in the future. Decision makers must use interest rates to compare investments made in the current period with cash inflows expected to be received at a future point in time.

• Risk: A bird in the hand is worth two birds in the bush. Decision makers (and, especially, individuals planning for retirement) face huge uncertainty, and must understand the difference between expected and realized returns!

• Opportunity cost: All projects must provide an acceptable rate of return. This return, often called the required rate of return, or the discount rate, is the opportunity cost. The opportunity cost is the basis for all decisions.

Course Materials: Our course is supported by a learning system called McGraw Hill Connect. You will receive instructions on how to purchase these materials in a separate notice.

Office Hours: I have regular office hours MW 11am-Noon. I am also available to help you via email, phone calls and—if you’re in Austin—visits.

This syllabus is the formal academic contract between us. Please review the following appendices for the details of the course and let me know if you have any questions.
Appendix 2: Course Structure

The seven parts of our course take you from human decision making, through markets and the companies that compete in them, to the major decisions that managers must make. Each part contains two or three Units that cover specific elements of the major concept.

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.

Unit 1: Human Nature and Economic Activity
Main Issue: What forces shape corporate decision-making?
Comments: All organizations, business, governments, NGOs, religions, etc. are composed of humans. This unit builds an understanding of human nature to explain markets and profit.

Unit 2: 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!

Part II: The Business Firm: Business information is organized into financial statements, “The Books”, which provide measures of value and performance.

Unit 3: Structuring the Business Firm
Main Issue: What is the goal of a business?
Comments: Our understanding of human nature, markets, and ethics helps define the goal of a business and how it’s governed.

Unit 4: The Accounting Framework
Main Issue: How are managerial decisions reflected in the accounting statements?
Comments: Managers use two information systems: accounting and 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.

Part III: Economic Value: Market prices are based on expectations of future. Decision makers must 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.

**Unit 5: Economic Value**
*Main Issue*: What is it worth?
*Comments*: Market participants use the process of economic valuation to determine how much they will pay for an asset. Managers use cost/benefit analysis to compare this value to the cost of undertaking in the investment.

**Unit 6: Applying Time Value Techniques**
*Main Issue*: How do managers analyze cash flows through time?
*Comments*: Time value analysis is made practical by introducing multiple cash flows, annuities, perpetuities, and compounding.

**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.

**Unit 7: 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.

**Unit 8: Valuing Bonds**
*Main issue*: How do investors value bonds?
*Comments*: Current bonds outstanding in the world are worth tens of trillions of dollars. Understanding bonds and their risks are essential for understanding the economy and raising capital.

**Unit 9: Valuing Equity**
*Main Issue*: How do investors determine stock prices?
*Comments*: The stock price is the major connection between the corporation and its stockholders. It is also a measure of how well the company is doing.

**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.

**Unit 10: Capital Budgeting Investment Decision Rules**
*Main Issue*: How can managers identify wealth-increasing projects?
*Comments*: Unit 5 introduced two important decision rules: NPV and IRR. This Unit expands your understanding of these rules and introduces other evaluation methods.

**Unit 11: Capital Budgeting Cash Flow Analysis**
*Main Issue*: How do managers identify and organize cash flows for analysis?
*Comments*: Capital budgeting decisions are focused on incremental changes in the organization. Managers must be able to identify what cash flows are relevant for these decisions and how to place these cash flows on a project time line.
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.

**Unit 12: Risk and the Opportunity Cost**
*Main Issue:* How do managers calculate the opportunity cost for a project?
*Comments:* This unit formally quantifies the opportunity cost, which is at the heart of economic decision making.

**Unit 13: Risk and the Cost of Capital**
*Main Issue:* How do 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 their investment in a company. This cost of capital can in many cases be used as the discount rate for corporate projects. This unit takes this concept and quantifies it through the Weighted Average Cost of Capital.

Part VII: The Global Environment: 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, and does this in a system of global economies and markets.

**Unit 14: The Investment Management Framework**
*Main Issue:* How does an investor invest?
*Comments:* Investment management theory guides the decisions regarding which securities to hold and how to combine these securities and other assets into investment portfolios.

**Unit 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.
Appendix 3: Assignments

The course grade consists of 1,000 points based on four types of evaluations:

**Three short essays** totaling 120 points. While you may use course and other resources, you must do these exercise on your own without help from others.

**Forty-Five LearnSmart Assignments**, each worth between 2 and 5 points, totaling 95 points. These integrative, adaptive assignments combine study and practice and give you prompt feedback on your understanding of the material. Please see the LearnSmart Connect Student Best Practices for more information.

**Thirteen Unit Quizzes**, each worth between 30 and 50 points, totaling 485 points. The quizzes consist of verbal and quantitative multiple-choice questions.

- You are allowed only one attempt on the Unit Quizzes.
- They are timed exercises: once you begin the clock starts and you must complete them.
- You may use a calculator and a self-created note sheet, but will not have access to the eBook or SmartBook exercises.
- Direct or indirect assistance from any individual(s) is(are) STRICTLY PROHIBITED and is an unequivocal violation of the McCombs School of Business Code of Ethics and University’s policy on Academic Dishonesty and Cheating.

**Two exams**

While the LearnSmart exercises and quizzes are excellent at developing your understanding of economic decision making, the exams provide a more flexible way of helping you further develop and integrate your skills. The exams consist of fill-in-the-blank, short answer, and quantitative problems. They are not encyclopedic, covering every element of our course, but rather sample your ability to apply your knowledge to financial decision problems.

- Exam 1: Units 1 through 9. 150 points. Exam 1 consolidates your ability to use time value to make decisions, and gives you practice in applying your skills to valuing non-financial assets.
- Exam 2: Units 10 through 13. 150 points. This second exam covers the important area of project evaluation, including project cash flow analysis and using financial models to determine the discount rate. (Don’t worry, these terms will be familiar to you as you progress through the course.)

**Deadlines**

The course is entirely self-paced. I do encourage you to progress through the assignments and set goals for yourself. The only firm deadline is that the course must be completed by the last class day, Monday, December 11.

There are no extensions of this deadline. As you do not have to be at a specific place at a specific time there should be no reason for you not to complete these assignments within this time frame.

Technical issues are not a reason for extension, so please be assured of a stable computer/device and internet connection before beginning an exercise.

One of the key concepts in our course is risk. Unexpected personal issues may come up, from a heavy exam schedule, a special event, a sports injury all the way up to the death of a friend or family member. A student who waits until December 11 may experience some of these events and ask for an extension. Given the nature of our course and the number of students I cannot evaluate and account for the many, and often important, personal events in your lives. So, please do give yourself some cushion by doing the assignments well prior to the end of the course, as you bear the risk for these unexpected events.
**Suggested Deadlines:**

Here are my suggested deadlines. They will help keep you on track to not only complete the course but also allow you enough time to truly learn Finance!

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<thead>
<tr>
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<tr>
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<td>Part I: The Economy</td>
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<td>Sunday, September 24</td>
<td>Part II: The Business Decision Framework</td>
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<td>Sunday, October 8</td>
<td>Part III: Economic Value</td>
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<td>Sunday, October 22</td>
<td>Part IV: Valuing Financial Securities</td>
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<td>Part V: Valuing Non-financial Assets</td>
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<td>Sunday, November 26</td>
<td>Part VI: Risk and the Cost of Capital</td>
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<td>Sunday, December 10</td>
<td>Part VII: The Global Environment</td>
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### Appendix 4: Assignments and Points Distribution

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2 31: CG Unit 9: Lesson 1: LS Assignment
2 32: CG Unit 9: Lesson 2: NPV and Wealth Creation Assignment
40 33: CG Unit 9 Quiz

150 150 Exam 1

53 Unit 10: Capital Budgeting Investment Decision Rules
2 34: CG Unit 10: Lesson 1: LS Assignment 1
2 35: CG Unit 10: Lesson 1: LS Assignment 2
2 36: CG Unit 10: Lesson 2: Assignment: Special Cap Budg Assn.
2 37: CG Unit 10: Lesson 2: LS Assignment
45 38: CG Unit 10 Quiz

58 Unit 11: Capital Budgeting Cash Flow Analysis
2 39: CG Unit 11: Lesson 1: LS Assignment 1
2 40: CG Unit 11: Lesson 1: LS Assignment 2
2 41: CG Unit 11: Lesson 2: LS Assignment 1
2 42: CG Unit 11: Lesson 2: EAC Assignment
50 43: CG Unit 11 Quiz

51 Unit 12: Risk and the Opportunity Cost
2 44: CG Unit 12: Lesson 1: LS Assignment 1
2 45: CG Unit 12: Lesson 1: LS Assignment 2
2 46: CG Unit 12: Lesson 2: LS Assignment
45 47: CG Unit 12 Quiz

48 Unit 13: Risk and the Cost of Capital
2 48: CG Unit 13: Lesson 1: Break-Even Analysis Assignment
2 49: CG Unit 13: Lesson 1: LS Assignment
2 50: CG Unit 13: Lesson 2: LS Assignment
2 51: CG Unit 13: Lesson 2: WACC Assignment
40 52: CG Unit 13 Quiz

36 Unit 14: The Investment Management Framework
2 53: CG Unit 14: Lesson 1: LS Assignment
2 54: CG Unit 14: Lesson 2: LS Assignment 1
2 55: CG Unit 14: Lesson 2: LS Assignment 2
30 56: CG Unit 14 Quiz

36 Unit 15: The Global Environment
2 57: CG Unit 15: Lesson 1: LS Assignment
2 58: CG Unit 15: Lesson 1: BOP Assignment
2 59: CG Unit 15: Lesson 2: LS Assignment
30 60: CG Unit 15 Quiz

150 150 Exam 2
120 Short essays
93 Completion assignments
485 Quiz totals
300 Exam Totals

1000 Total
Appendix 5: Grading

Finance is an applied discipline: its theories and logic have no impact unless they can be converted into decisions measured in terms of dollars and rates of return. This course provides you with many opportunities to use the logic of finance to determine the economic value of specific decisions. So please look on your grade not just as a number but as feedback on how well you have mastered the ability to manage money!

You will benefit not only from the content of our program, but also the reputation of our school. McCombs a professional school with an overt connection to the companies and organizations that operate in our global economy. Our students have a high reputation among recruiters and executives for not only knowledge but also effectiveness: they are able to handle complex decisions in major institutions and operate as managers and leaders, not workers who need frequent guidance. Completing this program will be a significant addition to your resume.

This hard-won reputation has been built by generations of students and faculty and is something we work strongly to preserve. Now, each of you have different motives for taking our course. Some students have plans to operate their own physical therapy business or create a software consulting business and for them our course will be a major guide. Others want to understand more about the organizations they will work in and pick up some skills to manage their own finances. And some need three hours of credit and an online course looks like an easy way to get them. I certainly recognize and respect that each of you have different motivations for taking this course and differing constraints on your time. However, I must grade on performance, which is measurable and generally based on the amount of time and focus devoted to the course.

Course Grading Scale
For initial guidance, our course will probably follow the standard academic grading scale. These grades may be curved depending on the performance of the class.

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Appendix 6: How to do the course.

Pros and cons of the online learning experience
This online course is quite different from normal in-class courses.

In a way this online course is more difficult in that you don’t have regular classes and the formal and informal communication that goes on between you and your instructor and you and your peers. It also requires you to keep up with the work and deadlines, which is sometimes difficult to do with the other pressures on your time and attention.

However, in many other ways the course is a lot easier and more efficient. You can go at your own pace, the material is tightly organized, and you have access to an advanced, sophisticated learning system.

The learning neighborhood
Each of the 15 units contains two or three lessons that are the building blocks of the course. Each lesson focuses on a major skill and consists of:

Scenario: Our protagonist, Dianne, progresses in the course from working for a non-profit, to learning about financial decisions, to handling sophisticated risk-management skills in global finance. Each scenario presents a basic decision she must make, and then asks what you would recommend.

Key Concepts: These are a combination of videos, explanations and examples that focus on a major element.

LearnSmart Assignments: These assignments reinforce the material in the Key Concepts and support your efforts with adaptive learning technology as explained below.

Applications: You are presented with questions and problems that allow you to apply what you’ve learned. After you answer each item you can click on a link to see the worked out solution. I certainly recommend that you attempt these questions prior to seeing the answer, but if your time is short you should at least review each solution!

The SmartBook
Place a text book on the table and look at it. It just lies there. SmartBook is different in that it interacts with you, providing guidance, practice and feedback. Here’s a brief video on the concept of SmartBook: https://www.youtube.com/watch?v=vHS2DMZUrtA#t=61.1300059

The assignments in the McGraw Hill SmartBook are called LearnSmart Assignments. As you work through a lesson and come to a LearnSmart Assignment, you will click on a link that will take you to the assignment. Once in the assignment you have access to the Read and Practice elements of the assignment. This video provides an integrated introduction to these elements.
https://www.youtube.com/watch?v=PTOr6clmkyo

Here are the four elements in more detail.

Read: SmartBook first guides you through the reading phase of the assignment.
https://www.youtube.com/watch?v=BzJ74lGyMXo

Practice: SmartBook integrates questions throughout the readings to give you insights through application. https://www.youtube.com/watch?v=z8Xa37ZA7-Y

Recharge: SmartBook provides practice and reinforcement on previously covered materials. As Appendix 2 of the syllabus shows, our course develops an integrated process for making economic decisions. You must recall and use techniques covered in early assignments in order to accomplish more advanced assignments. Recharge will
thus be a great assist in keeping all elements in mind.  
https://www.youtube.com/watch?v=Gbnhdwa6RaM

Reports: SmartBook provides a record of your progress and your strengths and weaknesses. It also provides helpful self-quizzes on the course materials prior to your taking the graded quizzes.  
https://www.youtube.com/watch?v=Tqxw6Qw6PJ0
Appendix 7: Crunching Numbers

You would not take this course if you could not read and speak English. In this course you will also have to speak, and think, in numbers. So, please, please, do read this appendix carefully.

As my bio states, I majored in Political Science at Tulane. One substantial motivation for choosing this major is that it did not involve mathematics, and allowed me to continue with an avoidance of calculations I had faithfully followed since grade school. However, once out in the world I realized that dollar amounts were actually numbers and quickly developed mathematical skills.

Finance’s goal is to process information into decisions about using market prices to create wealth. Everything involves money, and money is a number, and thus we have time value calculations. Many of these calculations you will find useful in your personal lives: loan payments, buy or lease decisions, retirement investments, payback on remodeling a kitchen, etc. Others will be useful in your professional decisions, such as the wealth impact of a new technology, deciding on when equipment should be replaced, etc.

Teaching Fin 320F is a challenge, as our course has not only engineers and scientists, but also poets and artists. I have tried to make the course accessible to all of my students, but also complete enough that everyone will come out of the course with usable skills.

Easing into Time Value

Part I of our course does not involve numbers!

Part II of our course involves numbers in accounting statements. The only math is subtracting costs from revenues to get profits, and using ratios, which is just dividing one number by another number. The required skills are more definitional than mathematical.

Part III begins our study of financial analysis and the need for the resources listed below.

Time Value Tools

Financial calculators: I recommend that you use a basic financial calculator in our course.

Some of you will start your own businesses, others plan to work in marketing, such as Anna, or communications or sports, such as Tanvi, or government or medicine. Your daily decisions will focus on expending funds to produce future benefits. Financial calculators are ideal for making calculations and are relatively inexpensive. So, getting into financial calculators now will give you a head start. For you I recommend the HP 10BII+. It’s the calculator we use at McCombs.

Appendix D in the text is a guide on using financial calculators. There are Calculator Hints spread throughout the course, including "Using A Financial Calculator" on page 103. I’ve written a guide on how to use the HB 10BII+: Fin 320 Calculator Guide-1.pdf.
Scientific/Engineering calculators: Those of you in these areas already have powerful calculators that can easily adapt to these numbers.

Online calculator: These online resources can be a great assist in your studying, but will not be available to you when taking the Mid-term or Final Exams.

Basic time value calculations: http://www.calculator.net/finance-calculator.html (Links to an external site.)

Economic decision rules: There’s a really neat online calculator at Calkoo.com. While some of these may not be necessary for our course (Value added taxes in Europe, or calculating how far along your pregnancy is) you’ll see NPV, Internal Rate of Return, Stock Valuation (Discounted Cash Flow model), Weighted Average Cost of Capital, Annuity payments and other calculations we’ll see later on in the course. You’ll calc at: http://www.calkoo.com/?lang=3&page=99 (Links to an external site.)

Mathematical Tables and Formula Sheets: These will be available to you when you take the Mid-term and Final Exams.

These are given in the back of the RWJ text as Appendix A and B, respectively. These documents, and some of the approximation methods discussed in the text, should be helpful, although I’d encourage you to use physical or online calculators in our course.
Appendix 8: Academic Integrity

Say you are in a very serious auto accident. As you are lying in the street your life is in the hands of the Paramedic. While you’re going through the normal “Life flashing before your eyes” bit, you might also be thinking: Does she actually know how to stop my massive bleeding, or might she have cheated on her exam?

The only reason you are taking this course is to gain skills that you, like Anna our TA Emerita, can use to benefit your employer. As with Austin-Travis County Emergency Medical Services and Tito's Handmade Vodka, any organization will hire only those who will help the organization accomplish its goals. The real test of an education thus occurs not in a quiz or assignment, but rather in its use by the graduate.

Markets are very good at sorting out true value. To ensure that the reputation of our graduates in professional employment markets remains strong, McCombs has a straight-forward policy on ethics and academic integrity that supports The University’s Code of Conduct.

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The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program’s Statement on Scholastic Dishonesty at http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx.

By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification.

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, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

P.S: Emerita: A woman retired from professional life but permitted to retain as an honorary title the rank of the last office held. Merriam-Webster.
Appendix 9: Students with Disabilities

Students with disabilities should request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, [http://diversity.utexas.edu/disability/](http://diversity.utexas.edu/disability/).

Our course is designed to be accessible to students with disabilities. Please let me know if you have difficulties in working through the course materials.

Some students who qualify for SSD letters don't use them in this course. Big mistake! Please do send me your letter and let me make the accommodations. If you don't get your letter to me at the start of the course and find you have difficulties later and submit a SSD letter I will make accommodations, but only for subsequent assignments.
Appendix 10: ProctorU

Understand ProctorU:

You will take the Mid-term and Final exams using ProctorU, which is a live, online proctoring service that allows you to take your exams from any suitable location.

ProctorU provides and easy to use portal to take your exams. However, it is a precise system that you should understand and be able to:

- Properly create your account
- Have the appropriate equipment
- Register and schedule your exam
- Take your exam under the supervision of an online proctor
- Understand how to get assistance if needed

The following information helps you with these requirements.

What is ProctorU.pdf gives an overview of how ProctorU works and summary of what you will have to accomplish prior to taking the Mid-term and Final exams.

https://www.proctoru.com/students/ is the ProctorU website. You should review the Pre-Exam Checklist, Automated Equipment Check, and Tech Requirements.

ProctorU - How it Works.pdf nicely lays out the ProctorU procedures from start to finish.


Create your ProctorU account:

While you can register through the ProctorU site, you may also register in our Canvas Home Page. On the left side of the screen you will see a link for ProctorU. Click on that link to create your account.

Insure you have the proper equipment for ProctorU:

Once you think you have an acceptable system, go to your ProctorU account in our Canvas and click on Test your equipment and make any necessary adjustments. You can also run an equipment check at www.proctoru.com/testitout. This site also has FAQs and the ability to ask any questions you may have about the proctoring process with a ProctorU representative. For additional technical services needed before your exam, you can click on the button that says “connect to a live person.”

Schedule your exam:

ProctorU is available 24/7, however there are two important rules to remember:
1. You will need to schedule your exam proctoring session at least 72 hours in advance to avoid any on demand scheduling fees.
2. The last available exam appointment will be at 9pm (CST) December 11 – This is the last class date and you will NOT be allowed to start the exam later than that.

ProctorU’s flex scheduling allows you to schedule more than 72 hours before your proctoring appointment; however, both Take It Soon and Take it Now options are subject to availability, so please don’t count on these services, especially if you wait to the end of the course!

The ProctorU fee is included in your overall course registration, so you should not have to pay for taking a regularly scheduled test.

Taking your exam:

You will be observed as you take the exam. Please make sure you follow these exam proctor policies:

- Make sure your phone or other digital device (including smart watch) is not on your person or out in the room where you are taking the exam (a desk drawer or backpack is a good storage place)
- Keep your eyes on the monitor/screen, don't stare to your right/left since that can generate an exam proctor violation
- No headphones, earphones, radio, or TV
- Do not leave the room or stand up from your chair during the exam
- Take the exam where you will not be disturbed - no other people can be in the room with you during the exam
- Work at a desk where the webcam can see your head and torso and the room behind you (avoid using a laptop while sitting on a bed or on the floor since the webcam can't see enough to verify the environment).
- The procedures for concluding the exam are very specific. Do not disconnect from ProctorU until directed to do so by your proctor.

Academic Integrity:

Please carefully follow the procedures of ProctorU. I use ProctorU to protect the integrity of the grade issued in this course. Any violation of the procedures in ProctorU is a violation of the McCombs and University Honor code and will result in a zero grade on the exam and possible reference to Student Judicial Services.