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."

Journalist 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: TBA
Telephone number: 512-475-8756
E-mail: ramesh.rao@mccombs.utexas.edu

Teaching Assistant: Fawad Hussain
Office: TBA
Office hours: TBA
Telephone number: 713-858-8559
E-mail: fawad.hussain@mba16.mccombs.utexas.edu

Course Objectives

This course 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


A reading package (with required and recommended readings) has been put together for the course. You will not be tested on the recommended readings.

**Course Structure and Grading**

The course consists of lectures, optional homework assignments, one quiz 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. 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.

**Quizzes and Exams (350 points)**
- **Quiz** (50 points): Saturday, February 6, beginning of class (45 minutes).
- **Midterm exam** (100 points): Friday, March 18, beginning of class (75 minutes). The exam will cover relevant text chapters (RWJ and Rao), class lectures, and required readings up to and including the last class period.
- **Final Exam** (200 points): Friday, April 15. The final exam is comprehensive and covers the whole course. The exam will cover relevant text chapters (RWJ and Rao), class lectures, and required readings. The final exam will not be returned to you. However, you are welcome to review your exam with the TA.

**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 quizzes/exams:** Students missing the quiz and/or 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
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 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.mccombs.utexas.edu/students/academics/honor/index.asp](http://mba.mccombs.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.
Important Dates

Saturday, February 6: Quiz 1
Saturday, March 18: Midterm Exam
Friday, April 15: Final Exam (comprehensive)

Tentative Schedule

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

The schedule below is organized by “Blocks” not strictly by “Dates.” Some issues may spill over into subsequent classes. The dates provided are (except for the quiz and exams), therefore, tentative.

Block I: Introduction and Overview (Jan 8, 9)
Discussion of Course, Class Procedures, and the "Big Picture."

RWJ Chapter 1. Introduction to Corporate Finance
Rao Chapter 1. The Firm and its Environment
Rao Chapter 2. Maximizing Stockholders' Welfare
Application: Wyoming Gas and Electric (on Canvas)

Recommended:
- If you are interested in reading more about the myriad dimensions of the concept of capital and the philosophy of capitalism, Hernando De Soto’s book The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else, is an interesting read. Basic Books, 2000.
- 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

Block 2: Time Value, Bond and Stock Valuation (Jan 22, 23)

Continuation of Rao Chapter 19 from last class (if needed)

RWJ Chapter 4: Discounted Cash Flow Valuation
RWJ Chapter 8: Interest Rates and Bond Valuation
RWJ Chapter 9: Stock Valuation
RWJ Chapter 15: Long-Term Financing: An Introduction

Note: Depending on time constraints, we may not cover Chapter 15 in class. You will be responsible for them (i.e., read them on your own). A brief PP deck will be posted on Canvas.

Note: Printer-friendly time value tables, time value formulas, and “Financial Functions in Excel,” posted on Canvas.
Recommended:
- “Introduction to Islamic Finance” (interest is proscribed), Harvard Business School Note 9-2-002

**Block 3: Capital Budgeting (Feb 6, 19)**

**Quiz 1: Saturday, February 6**

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

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

**Rao:** Applied Research Technologies, on Canvas.

**Rao:** Coping with Cash Flow Uncertainty (PP Deck on Canvas)

**Readings:**
- Supplement on Capital Budgeting under Inflation, posted on Canvas

**Recommended:**

**Block 4: Risk and Expected Returns, (Feb 20)**

**RWJ Chapter 10:** Risk and return: Lessons from Market History

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

**RWJ Chapter 20:** Raising Capital
- Update on Investment Banking (on Canvas) (read on your own)

**Readings:**
- Friday, October 10

**Recommended:**

**Block 5: Capital Structure and Bankruptcy (March 4, March 18)**

**Midterm Exam: Saturday, March 18**

**RWJ Chapter 16:** Capital Structure: Basic Concepts  
**RWJ Chapter 17:** Capital Structure: Limits to the Use of Debt  
**Rao Chapter 16:** Resolving Financial Distress, on Canvas

**Readings:**

**Recommended:**

The article argues that extant cost of capital results and intuitions change dramatically when one admits risky debt and non-debt tax shields into the analytical framework (article is aimed at a technical audience, but the introduction and conclusion will give you the needed context).

**Block 6: Valuation of the Levered Firm and Introduction to Risk Management (March 19)**

**RWJ Chapter 18:** Valuation and Capital Budgeting for the Levered Firm

**Readings:**
- “Valuing Companies in Corporate Restructuring” HBS 9-201-073
• “A Note on Capital Cash Flow Valuation” HBS 9-295-069
• “A Note on Valuing Equity Cash Flows” HBS 9-295-085

**Rao Chapter 11:** Managing Total Risk with Derivative Securities, on Canvas.

**Review of Course**

**Comprehensive Final Exam: Friday, April 15**