



FIN 320F Foundations of Finance Spring 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:

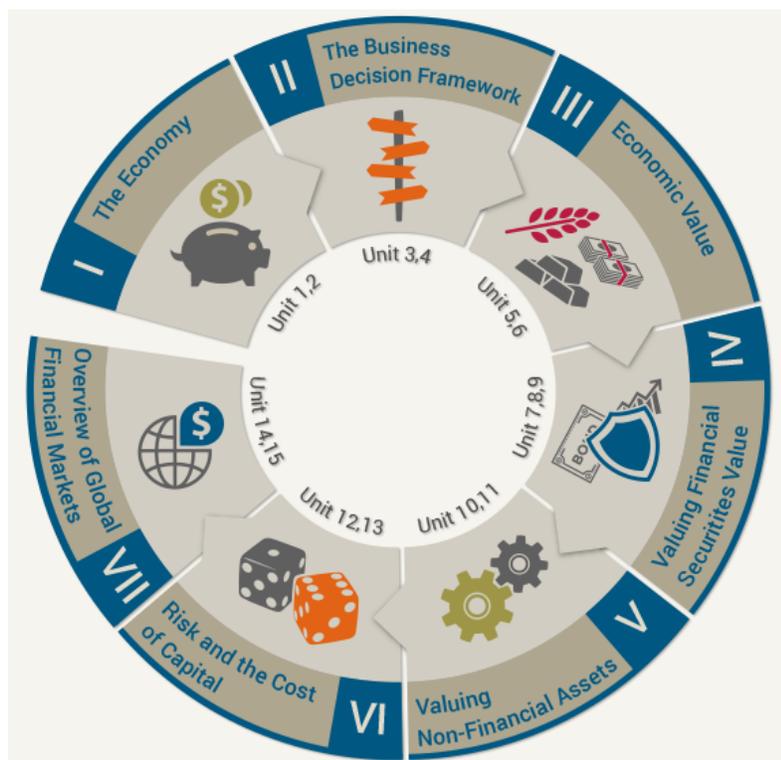
- **Market values:** Choice and competition affect all decisions, even those that may appear strictly internal to the company or not to involve profit at all. Business managers must value projects from the viewpoint of those outside of the company (investors and customers) whose choice determines the 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: While this is an on-line course, many of you are on campus and are welcome to visit me. I have regular office hours on Monday and Wednesday from 9:00am to 11:00am and am available at other times by appointment.

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 three types of evaluations:

Three short essays totaling 140 points. While you may use course and other resources, you must do these exercise on your own without help from others.

Forty LearnSmart Assignments, each worth between 5 and 10 points, totaling 235 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 45 and 60 points, totaling 625 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.

Assignment Deadlines

To give you maximum flexibility in managing your time, I've established only seven deadlines that correspond to the seven parts of our course. By the deadline for each part, you must have completed all of the assignments in that part. At the designated day/time all graded assignments for that Part will be closed, and any work submitted after the deadline will receive a "0" grade. These deadlines are the latest submission date, and I encourage you to complete the assignment prior to the last minute.

The due time is 10pm local Austin time on each specified date.

Date	Part to be complete
Sunday, January 29	Part I: The Economy
Sunday, February 12	Part II: The Business Decision Framework
Sunday, March 5	Part III: Economic Value
Sunday, March 19	Part IV: Valuing Financial Securities
Sunday, April 9	Part V: Valuing Non-financial Assets
Sunday, April 23	Part VI: Risk and the Cost of Capital
Friday, May 5	Part VII: The Global Environment Note that Part VII is due on the last class day.

There are no extensions of these deadlines. 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.

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 the deadline may experience 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 deadlines, as you bear the risk for these unexpected events.

Serious issues over an extended period of time may indicate that a student should drop the course. The above statement does not mean that I am indifferent to your welfare, so if you have a very serious issue you will always receive a respectful hearing from me.

Appendix 4: 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 on-line 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. In previous semesters curve the course grades have been curved the completion of the course, but each semester this depends on the performance of the class.

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

Appendix 4: How to do the course.

Pros and cons of the online learning experience

This online course is quite different from your normal in-class courses.

It's 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>

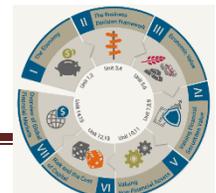
Here are the four elements in more detail.

Read: SmartBook first guides you through the reading phase of the assignment.

<https://www.youtube.com/watch?v=BzJ74IGyMXo>

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=Tqwx6Qw6PJ0>

Appendix 6: Academic Integrity

Markets are very good at sorting out true value. The real test of an education occurs not in a quiz or assignment, but rather in its use by the graduate. To ensure that the reputation of our graduates remains strong, McCombs has a straight-forward policy on ethics and academic integrity that supports The University's Code of Conduct.

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.mcombs.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.

Appendix 7: Other University Policies

By University policy these announcements are part of all University Syllabi, and I am thus including them here.

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/>. Please let me know if you have difficulties in working through the course materials.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence. As you have great flexibility in this course no assignment should conflict with a religious holy day.

Campus Safety and Security

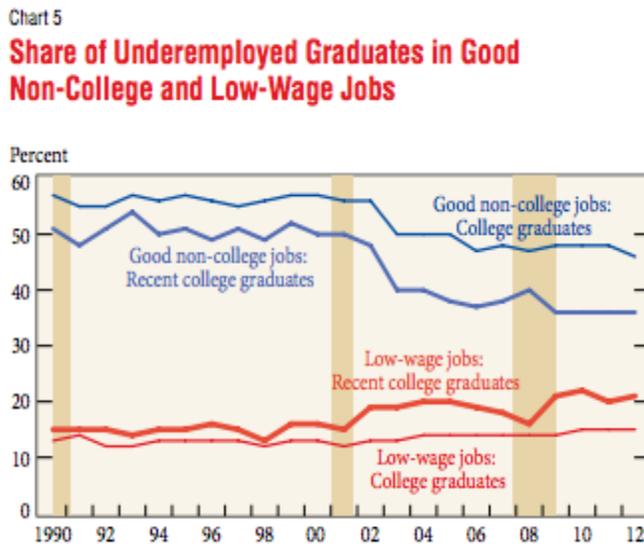
Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/>

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform their instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: www.utexas.edu/emergency.

Appendix 6: Academic Integrity and Lemons.

One of the issues faced by market participants is the existence of “lemons”. While often used in reference to used cars, a lemon is any product or service that is defective or does not perform as promised. The following link to Wikipedia gives an interesting explanation of lemons.

[https://en.wikipedia.org/wiki/Lemon_\(automobile\)](https://en.wikipedia.org/wiki/Lemon_(automobile))



Sources: U.S. Census Bureau and U.S. Bureau of Labor Statistics, Current Population Survey, March Supplement; U.S. Department of Labor, O*NET.

While lemons are found in the used car market, they are also found in college graduates (And, yes, in professors, too!). As this chart shows many college graduates do not hold college-level positions. Employers have found that having a college degree is not always the same as having a college education.

The McCombs School has an excellent reputation among companies—non-profits, government agencies, corporations, investment banks, etc.—that hire our graduates. These companies expect that our students to participate in a rigorous educational experience and to have the skills necessary to guide their organizations.

This chart is from “College Graduates are Increasingly Likely to Work Low-Quality Jobs”, Published by ThinkProgress. The article itself is at this link: <http://thinkprogress.org/economy/2014/01/17/3175861/college-graduates-jobs/>

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