

Spring Semester 2018
TEMBA: BA285T - 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."

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

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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

Required: Corporate Finance by Ross, Westerfield, Jaffe and Jordan ("RWJJ"), 11th 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 made

available (on Canvas) to students.

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, 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.

Problem Sets

There are five problem sets on Canvas. You can work with your colleagues on this, but **each student must upload his/her work individually**. If you work through them to a “satisfactory degree” (say, 50% attempted conscientiously) and submit them on time, you will get a score of “Acceptable.” Otherwise, a score of “Not submitted” with zero points. The evaluation will be based on effort, not accuracy. Admittedly, this is subjective and will be decided by the instructor/TA. No appeals will be entertained. LATE SUBMISSIONS WILL NOT BE GIVEN CREDIT.

The solutions to problem sets will be uploaded on to the Canvas site.

Grading (350 points)

- **Problem sets** (50 points). Due dates will be discussed in class.
- **Midterm exam** (100 points): **April 17**, beginning of class. (60 minutes). The exam will cover relevant text chapters (RWJJ and Rao), class lectures, and required readings up to and including the last class period.
- **Final Exam** (200 points): **May 8**. The final exam is comprehensive and covers the whole course. The exam will cover relevant text chapters (RWJJ 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 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.

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.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.

Tentative Schedule

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

The schedule below is organized by “Blocks” not by “Dates.”

Block 1: Introduction and Overview

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

Pre-readings:

Rao Chapter 1. The Firm and its Environment

Rao Chapter 2. Maximizing Stockholders' Welfare

Canvas PP SLIDE DECK(S)

NOTE: You should begin the readings for Block 2 and start working on the problem set on Canvas. They will take time and they are due just a few days after we cover Block 2

Recommended:

- If you are interested in reading more about the myriad dimensions of the concept of capital and the philosophy of capitalism, Hernando De Sotos' 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: An Accounting Perspective on Leverage and the Time Value of Money

Rao Chapter 19: The Impact of Operating and Financial Decisions on Cash Flows
Application: Wyoming Gas and Electric (on Canvas)

RWJJ Chapter 4: Discounted Cash Flow Valuation

Canvas PP SLIDE DECK(S)

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

1. PROBLEM SET on Time Value

Block 3: Long-term Financing, Bonds and Stocks

RWJJ Chapter 15: Long-Term Financing: An Introduction

RWJJ Chapter 8: Interest Rates and Bond Valuation

RWJJ Chapter 9: Stock Valuation

Canvas PP SLIDE DECK(S)

2. PROBLEM SETS on Bond and Stocks

Block 4: Midterm and Introduction to Capital Budgeting

Midterm exam: 60 minutes (covers everything until the end of the last class)

Canvas PP SLIDE DECK(S)

RWJJ Chapter 5: Net Present Value and Other Investment Rules

RWJJ Chapter 6: Making Capital Investment Decisions

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

Rao: The Value of Flexibility: Applied Research Technologies, posted on Canvas.

Canvas PP SLIDE DECK(S)

Readings:

- Supplement on Capital Budgeting under Inflation, posted on Canvas
- Rao, Ramesh K. S. and Neeraj Bharadwaj, 2008, “Marketing Initiatives, Expected Cash Flows, and Shareholders’ Wealth,” Journal of Marketing, January.
- Shapiro, A. “Corporate Strategy and the Capital Budgeting Decision,” The New Corporate Finance, Where Theory Meets Practice, Don Chew (ed.), McGraw Hill, Inc., 1993.

Recommended:

- 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.
- Thomas Friedman’s The Lexus and the Olive Tree, Anchor Books 2000, is an interesting book about how the wealth-creation process has changed with globalization.

3. PROBLEM SET on Capital Budgeting
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Block 5: The Risk-Expected Return Relationship

RWJJ Chapter 10: Risk and return: Lessons from Market History

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

Canvas PP SLIDE DECK(S)

Readings:

- Roll, R. 1994, “What Every CFO Should Know About Scientific Progress in Financial Economics: What Is Known and What Remains to be Resolved,” Financial Management, 23(2), Summer, 69-75.
- Bruner, Robert F., Kenneth M. Eades, Robert S. Harris, Robert C Higgins, “Best Practices in Estimating the Cost of Capital: Survey and Synthesis,” Financial Practice and Education, Volume 8, Number 1, 13-28

Recommended:

- Bernstein, P. L. 1995, “Risk as a History of Ideas,” Journal of Financial Education, 21, Fall, 5-8.
- Kritzman, M. P., 1994, “... About Higher Moments,” Financial Analysts Journal, September-October, 10-17.
- Robert Shiller’s The New Financial Order: Risk in the 21st Century, Princeton University Press, 2003, argues that “our infatuation with stock markets distracts us from more durable economic prospects.” He suggests six new ideas for risk-reduction that finance theory has largely ignored.
- Andre Shliefer’s Inefficient Markets: An Introduction to Behavioral Finance 2000, (Clarendon Lectures in Economics: Oxford) provides arguments against efficient markets (book is aimed at academic audience).

4. PROBLEM SET on Risk and Return
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Block 6: Capital Structure and Bankruptcy (time permitting)

RWJJ Chapter 16, 17

Rao Ch. 16. Resolving Financial Distress

Canvas PP SLIDE DECK(S)

5. PROBLEM SET on Capital Structure

FINAL EXAM (comprehensive, May 9)