

McCOMBS SCHOOL OF BUSINESS
THE UNIVERSITY OF TEXAS AT AUSTIN

FIN 357 BUSINESS FINANCE
COURSE SYLLABUS

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Fall 2007

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Meetings: MW 8:00 - 9:30

Office Hours: MW 9:30-10:30 (and by appointment)

Course Description

This course provides the foundations for subsequent courses in corporate finance, security analysis, investments, fixed income securities, speculative markets, and real estate finance. Its purpose is to provide an introduction to the concepts and techniques of financial analysis, with an emphasis on corporate finance. The main topics covered include (1) present value and capital budgeting techniques, (2) asset valuation and the trade-off between risk and return, (3) capital markets, and (4) the financing decisions of the firm.

Course Objective

After completing the course, you should be able to:

- (1) understand and critically evaluate the discussion of financial issues in the popular press, and
- (2) analyze the major types of financial decisions made by corporations.

Since the emphasis is on the fundamental concepts underlying modern corporate finance, the approach will be analytical and rigorous. This will require some familiarity with accounting, mathematical, and statistical tools that you should obtain from the prerequisites courses.

Prerequisites

The prerequisites for this class are: ACC 312, ECO 304K (or 303) and ECO 303L (or 302), STA 309, and admission to a business major. These prerequisites will be enforced and students without prerequisites will be dropped from the course. According to the business school policy, I may not make exceptions to these prerequisites.

The course makes extensive use of mathematical and statistical manipulations at the level taught in STA 309. We will make very sporadic use of calculus, but knowledge of calculus is not necessary for this course.

Course Text

Stephen A. **Ross**, Randolph W. **Westerfield**, and Bradford D. **Jordan**, Fundamentals of Corporate Finance, 8th edition, McGraw Hill, 2007, ISBN: 007353062X.

Recommended Reading and Program

- Wall Street Journal
- Business Week
- Forbes
- The Economist
- U.S. News & World Report
- Nightly Business Report
(5:30 PM on PBS)

Calculator

Each student is required to bring a calculator to *all* classes and tests. Any calculator that has an x^y button will do. Laptops and PDA's will not be allowed for the exams.

Although business calculator is not needed for the course, I encourage you to obtain a business calculator for future course work in finance, accounting, and other business courses. A student business calculator (such as HP 10bII, TI BAI Plus or calculators with similar capabilities) should be adequate for all business courses. Because of the variety of calculators used, students will be expected to learn how to use their calculators on their own.

Student Assessment

The course grade will be based on the following:

- three (3) exams, each for 250 points (total: 750 points)
- five graded quizzes, each for 50 points (total: 250 points)
- class participation (25 points).

Although these add up to 1025, the maximal amount of points a student can obtain in this class is 1000. For example, if a student receives 980 from exams and quizzes, and I assign 25 participation points to that student, the final point total is 1000, instead of 1005.

The tentative exam schedule will be as follows:

Exam I	Wednesday, October 3 (<i>In-class</i>)
Exam II	Wednesday, November 7 (<i>In-class</i>)
Exam III	(<i>School-wide Final Exam Schedule: December 12-15, 17-18</i>)

Quizzes will be announced **only once** during the preceding class to encourage on-time class attendance. There are 7 quizzes in total, but only the highest 5 scores will be used for the final grade calculation. In other words, you are allowed two free passes; please use these judiciously.

Class participation grade will also be partially based on class attendance. I will observe student participation in the course and reward those students who make a substantial effort. My evaluation will be based on how well you have participated in class, looking at the quality, not the quantity, of your participation. Points awarded are at my discretion and are based on my opinion of your efforts and your contribution to class discussions. These points are not automatically given, but must be earned. They are not subject to negotiation. Credits will not be on a normal grading scale, but will range from 0 to 25 points.

I will also assign suggested homework problems that will neither be collected nor graded. You are responsible for solving and understanding these problems since they will be closely related to quiz problems as well as exam problems. Group discussion is highly encouraged.

Grade Adjustments

While you primarily bear the consequences of your actions in this course, your actions may also have a direct effect on other students and me. In registering for my course you are entering into a contract with me that specifies the actions that we mutually agree to. If you do not live up to your part of our agreement, you face certain penalties. I hope that no penalties will be assigned this semester but you should, when planning your activities, keep the existence of these sanctions in mind.

- (1) **Missing exams without my prior approval:** Students missing a test without my prior permission will receive $\frac{3}{4}$ of the lowest grade awarded to students taking that test. For example, if you miss a test (without permission) in which the lowest grade in that test is 160 out of 250, your grade for that test will be 120 ($\frac{3}{4}$ of 160).

Students missing a test with my permission will have the points for the missed test added to their final test. As an example, if you miss the second test, the points of that test will be added to the last test. In addition, I reserve the right to give a last test that differs from that given to the students who are taking the regular third test. Requests for excuse from a test must be made **in writing** and, except for extreme emergencies determined solely at the instructor's discretion, prior to the test.

- (2) **Failure to turn in tests when requested:** I will give notice when the time for an exam has expired (as well as several notices prior to that). I will give two minutes for students to complete their work and turn in their exams. Students who do not turn in their tests by the time I have indicated will have 25 points deducted from their test scores.

Grading Distributions

Your letter grade for the course will be based on your ranking in the course (i.e., the curve). In general, there will be about 25% A, 40-50% B, 15-25% C, and 10% D or below. However, I will make adjustments based on how the class performs as a whole.

Regrading Policy

Regrade requests for the first and second exams must be made **in writing** within two (2) class days after the graded exams are distributed back to students. Regrade requests for the third exam must be made **in writing** within two weeks into the following semester. Requests must clearly and specifically state your reasons for objecting to your assigned score on a particular question. Requests that do not meet these guidelines will be discarded. In making your requests, please keep in mind that the whole exam is subject to regrading.

Preparing for Classes

The material for this course needs to be absorbed consistently. As the course progresses, students should work on the suggested homework problems to prepare for quizzes. All these problems are essential for a full understanding of the material covered in the course. The three exams will systematically include questions that are very similar to the quiz problems as well as the suggested homework problems.

You should find it helpful to read the relevant chapters from the Ross, Westerfield, and Jordan textbook **before** we cover the material in class; in general the difficulty of the material covered in class will be at least that of the textbook. After the lecture you should go through the notes, and finally check your understanding of the material by completing the suggested homeworks. To facilitate this, quiz questions for a particular class will be geared towards testing both (1) materials from reading assignment for the class, and (2) materials from previous classes. Of course, the questions for previous materials will be harder than the questions for materials we have not discussed in class.

Course WebPage

The different course material will, in general, be distributed through the course web page on Blackboard. Please familiarize yourself with Blackboard: <http://courses.utexas.edu/>

Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: <http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html>.

Students with Disabilities

The University of Texas at Austin provides upon request academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

Tentative Course Schedule

(All reading corresponds to Ross, Westerfield, and Jordan. Please read **ahead** of the class except where indicated.)

Date	Day	Topic	Reading (RWJ)
Aug. 29	W	1. Introduction	Ch. 1 (after class)
Sept. 3	M	<i>No Class (Labor Day)</i>	
5	W	2. Basic Valuation I – Time Value of Money (TVM)	Ch. 5
10	M	3. Basic Valuation II – Perpetuities and Annuities	Ch. 6
12	W	4. Basic Valuation III – Applications	
17	M	5. Basic Valuation IV – Examples	
19	W	6. Valuing Bonds I	Ch. 7
24	M	7. Valuing Bonds II	
26	W	8. Valuing Stocks I	Ch. 8
Oct. 1	M	9. Valuing Stocks II	
3	W	Exam I	
8	M	10. Capital Budgeting I	Ch. 2 & 9
10	W	11. Capital Budgeting II	
15	M	12. Capital Budgeting III	Ch. 10 & 11
17	W	<i>TBA</i>	
22	M	13. Capital Budgeting IV	
24	W	14. Risk and Return I	Ch. 12
29	M	15. Risk and Return II	
31	W	16. Portfolio Theory I	Ch. 13
Nov. 5	M	17. Portfolio Theory II	
7	W	Exam II	
12	M	18. CAPM	
14	W	19. Capital Budgeting under Uncertainty	Ch. 16
19	M	20. Overview of Corporate Financing	Ch. 17
21	W	<i>No Class (Thanksgiving)</i>	
26	M	21. Capital Structure I	
28	W	22. Capital Structure II	
Dec. 3	M	23. Capital Structure III	
5	W	24. Review of Course	