

FINANCE 3041
Fundamentals of Corporate Finance – Honors Level
Section 1 (MW from 9:10 to 10:30 am)

Course Materials

The **required** materials for the course are:

The course pack including the syllabus and lecture notes; this is available from the University Copy Center in the Student Union building.

The text: Fundamentals of Corporate Finance— Fifth Edition, authored by Brealey, Myers, and Marcus published by Irwin, McGraw-Hill, 2007 (called BMM).

Calculator: Hewlett-Packard 10-BII financial calculator (about \$35). I will often work problems in class using special keys on this calculator. To get the most out of class sessions, it is important that you bring your HP 10-BII every day. It is inefficient to deal with describing multiple calculators' functions so if you choose another be sure you can familiarize yourself with its functions on your own.

NOTE: WebCT has the syllabus and will have Homework Solutions posted at appropriate times.

Highly recommended materials for the course are:

Wall Street Journal: We will sometimes read and/or discuss current business events and the WSJ is an excellent source of news and financial data for companies. Much of the same information can also be obtained from various websites so the WSJ is not mandatory. Additionally, my long-time favorite weekly business and global event magazine is *The Economist*. I strongly recommend reading this magazine to gain insights not always conveyed in the standard weekly business magazines.

Course Objective

The course addresses the theory and practice of financial management – namely, managing the operating, investing, and financing functions to maximize the value of the firm. The three major objectives of the course are:

1. To provide you with a solid grounding in the basic concepts of finance, especially corporate finance, including the time value of money, the role of financial markets, security valuation, portfolio theory, and the risk-return tradeoff.

2. To develop your skills in financial analysis, planning, and decision making.
3. To expand your awareness of institutions and practices in business and finance.

These goals are deliberately broad, and allow room for modification if class members are interested in a specific problem. Current events are always fair game for classroom discussion and detours.

Note that the course is structured around lecture and examples. The *only* way to become comfortable with these techniques is to practice them, so it is important that you work the problems recommended in the syllabus.

Homework:

Major Homework Assignments: There will be two major graded homework assignments during the semester, one preceding each midterm exam. The assignments will be rigorous and will consist of problems similar to the relatively hard ones assigned from the chapters. I will provide solutions immediately after these are handed in.

Routine Homework Assignments: Problems will be assigned that correspond to the lecture material, as the material is covered in class. These problems will be not be collected but detailed solutions to them will be provided. The purpose of assigning routine homework problems is to ensure that you stay on top of the material by working problems as we cover material in the lectures. It goes without saying that finance is a very quantitative course, and one that layers the material; thus you must know how to work a given set of problems before you move on to the next set of problems. It is extremely important that you stay caught up.

Exams:

Midterm Exam: There will a midterm exam given after appropriate groupings of material have been covered.

Final In-Class Individual Case Exam: The in-class individual exam will be given on the last day of the course.

Cases:

There will be two cases assigned to ensure that you get the flavor of solving allegedly real problems facing a firm. There are several excellent elective courses in Finance that involve cases that I strongly encourage students to take (after successful completion of this class, of course) in order to gain much more exposure to dealing with imperfect-information, time-sensitive situations in which real financial decisions need to be made.

The first case assigned is Clarkson Lumber Company, a Harvard Business School case (number 9-297-028). The second case assigned is the MiniCase in the back of Chapter 9 of BMM on page 263.

You will have to turn in a written analysis of each assigned case. The written case can be prepared on a team basis, with up to five members on a team. In light of your schedules, you may prepare your written case on an individual basis if you prefer. It is up to each student to decide upon and execute her/his own strategy for forming a team or choosing to “go it alone.” If you choose a group, your group will submit one write-up for the case. All team members will receive the same grade for the case. We will discuss the case in class on the predetermined date as outlined in the syllabus. All team members should be knowledgeable about the facts of the assigned case, as I will randomly solicit discussion from class members.

Guideline for the case write-up:

What follows is a seemingly exhausting outline for case preparation. This is intentional. You are likely to be working on plenty of cases over time here at DESB and may already have done so. In my time teaching the Finance Cases elective course, I have found that this detailed outline helps steer students toward the right approach and outcome.

I. Preparation of Cases:

1. Read cases *carefully*, analyzing all statistical data. Do not be afraid to read the case two, three or even four times if necessary. Most of the cases are short, but loaded with relevant facts.
2. Determine the major problem or problems involved in the case.
3. With the problem or problems in mind, think about and search for alternative courses of action that are feasible. Extra research may be necessary at this stage. Consult your finance textbooks and other reference books.
4. Develop your plan for presenting the case in written form.

II. A strongly recommended (but not required) way of organizing your written report is to divide your report into six parts, as follows:

1. Executive Summary: One page or less that concentrates on the statement of the problem and your recommendations, not on the process used to reach those conclusions. The executive summary should stand on its own and be designed to provide a concise briefing to a busy executive.
2. Summary of facts: Present a *very brief* summary of important facts. Omit nonessential facts that do not affect your analysis of the problem. Keep in mind that the intended audience probably also works for the company and is familiar with the basic facts of the case.

3. Statement of Problem: State the problem or problems which you intend to analyze and that you feel are the most important issues in the case. Attempt to state the problem in one or two short sentences. The ability to state a problem concisely and clearly is an extremely valuable skill. Practice now!
4. Analysis: Present your analysis or discussion in a rough outline form using complete sentences, or short paragraphs. (This allows more information and ideas to be presented in a smaller amount of space.) Use headings, spacing, indentations, and other techniques to organize and invite attention to the important points in your analysis. Each of the exhibits attached to the case should be referenced within the discussion section.

This section of the report is where you use logic, judgment and your problem-solving ability to support your recommendations. The strengths and weaknesses of the alternative courses of action should be developed in this section. Support your ideas with carefully developed financial data. Your analysis should be organized and written in such a way that a reader will be led directly to your recommendations at the end of the case.

5. Recommendations: This section should also be *very brief*. A solution must be given to the problem or problems you raised above.
6. Exhibits and Tables: These should appear at the end of your report in an easily readable form. Make sure all exhibits are clearly explained and referenced in the text of the report and **be sure the exhibits are clearly labeled, titled, and numbered**. (For example: a forecast of future cash flows that you have developed). It should be very clear how you developed the data in any table or exhibit. You should use footnotes to explain to the reader exactly how the numbers in the table were calculated. Make sure every variable is clearly labeled.

III. When you prepare your individual or group report, observing the following:

1. The report must not exceed a length of five pages (the Executive Summary and Charts, tables and exhibits do **not** count toward the 5-page limit). A *rough* guide for the 5 pages is as follows: Summary of Facts and the Statement of the Problem combined should not exceed 1 page, Analysis should be about 3 to 3 ½ pages in length, and the Recommendations should be about ½ page in length. These are only rough guidelines – each case will be different.

Do not feel like the report has to be 5 pages – Conciseness and clarity are very important. On the other hand, if 5 pages do not seem to be enough space to fully analyze the problem, place more information in the tables. Footnotes to the tables are a great place (i.e. usually the *best* place) to convey information regarding formulas, assumptions, etc.

2. All written cases should be typed and double-spaced on paper, 8 ½ x 11".
3. Leave margins of at least 1" on the left and ¾" on the top, bottom and right margins.

IV. Other points

1. Your case report should contain information that you would present to management or your superiors in a business meeting or other business situation. Consider your time and especially their time to be very valuable! Pretend that you are writing for a very busy executive who may not have time to read the report in its entirety -- avoid generalities and make your report easy to read. Your writing style is very important as well. As a businessperson presenting your ideas to others, you want to make sure your ideas are clear and that others reading your report will understand the points you are trying to make.

A useful saying goes: "If I had only had more time, I could have made the report much shorter."

2. Keep a copy of your report for the discussion of the case in class.
3. Grades will be based on the quality of your recommendations and analysis, the soundness of your logic and the overall exposition of the case (writing and style).

Academic Dishonesty:

It is regrettable that I have to include a section in my syllabus that covers academic dishonesty, but I have had some situations appear in the past and feel it is important to get this out in the open. I will not tolerate any form of cheating in my class. Violators will be punished to the full extent possible. Academic dishonesty steals from those in the class who are trying hard to learn on their own and maintain a strong record of grade achievement to prove it. It also steals from me as I spend a lot of time trying to motivate my material and motivate student learning. As such, the next section details explicitly what may or may not be done as far as working with other students.

What is and is not allowed for exams and homework:

Exams: the exams will be in-class exams and these are to be taken without the assistance of books, notes, or other people. I will provide a formula sheet for each exam with basic formulas – no other papers can be used. A calculator is permitted, but calculators that allow the storage of text may not be used unless all the stored text is cleared prior to the exam. You may study for exams with fellow classmates, of course, and this is encouraged. I will rarely allow a make up exam so that I lessen the opportunity for cheating. A reason must be very strong before I will allow a make up exam. Needing to catch a flight home or some other discretionary purpose is not sufficient. The student making up an exam, either early or late, should expect to take a substantially different exam from that taken by the rest of the class.

Major Homeworks: You are allowed to work individually on homework assignments or can work in groups, but group work should be only of a general nature. It is not permitted that a student turns in work that is essentially copied from another student. By design, the homework problems count for relatively little of the total grade points, so I ask that you simply skip turning in an assignment if you are tempted to copy from another student. You may ask me questions of a general nature to get guidance on your work if needed or you can ask similar questions of my Teaching Assistant (if I have one).

Class Preparation

Each student is expected to be prepared for class and to contribute to class discussions.

Grade Determination

Final grade assignments will depend upon your overall performance and will be determined as objectively as possible based on the following weights:

Midterm	30%
In-Class Case on last class day	35%
Major Homeworks (2 total)	10% (that is, 5% each)
Clarkson Case	15%
Chap 9 Mini Case	10%
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Total	100%

Grade Distribution:

The DESB has grading guidelines. In the absence of remarkable circumstances, letter grades are supposed to conform to the DESB grading guidelines. Guidelines for the average class grade are:

<u>COURSE LEVEL</u>	<u>GUIDELINE</u>
1000-2000	2.4-2.8
3000-3990	2.6-3.0
4000-5990	2.8-3.2
6000-6990	3.1-3.5

HOWEVER, a small group of self-selected students that choose to take the Honors Finance course does indeed constitute remarkable circumstances. Thus, I have the flexibility to offer much higher average grades. My willingness to do so depends on the class performing at a substantially higher level than would be typical for a non-Honors class.

Americans with Disabilities Act

The Finance Department of the David Eccles School of Business seeks to provide equal access to its programs, services, and activities for people with disabilities. If you will need accommodations in this class, reasonable prior notice needs to be given to me and to the Center for Disability Services, 162 Olpin Union Building, 581-5020 (V/TDD) to make arrangements for accommodations.

Instructor Office Hours and Contact Information

I will conduct office hours on Monday and Wednesday from 3:40 pm until 5pm. These hours have been selected to best serve a range of students. PLEASE NOTE THAT THE FIRST MONDAY OF EVERY MONTH I WILL NOT BE HAVING OFFICE HOURS BECAUSE I SERVE ON THE UNIVERSITY'S ACADEMIC SENATE AND THIS TIME SLOT IS WHEN THE SENATE MEETS.

In general, you may reach me at my office much of the time during the week if these times are not convenient; the number is (801) 585-3171. You may also email me with questions or requests at finkvl@business.utah.edu. My office is in KDGB 222.

Importantly, I will maintain a webpage devoted entirely to this class. On it you will see items such as solutions to the homework. **WebCT** will be the delivery mechanism for course materials over the web.

If you are curious about my research areas and other aspects of my background, my web address is: **www.business.utah.edu/~finkvl**

ONE FINAL NOTE: There will not be a formal final exam for this course because of the extra work done throughout the semester.

FINAN 3041 Karl Lins Tentative Class Schedule

Date	Topic	Assignment (BMM)
Jan 7	Introduction	Read Ch 1 & 2
9	Introduction, cont'd and Financial Statement Analysis	Read Ch 1, Ch 2, Ch 3, Ch 17 Work Ch 17: 1,2,3,5,6,11,23,25
14	Financial Statement Analysis and Financial Planning	Read Ch 17 & Ch 18
16		Work Ch 18: 12,16,26,27
Jan 21 (Holiday)	-----	-----
23	Time Value of Money	Read Ch 4
28		Work Ch 4: 2,5,6,15,22,23,26(a only),48,53,68(a,b,c only),77
30	Time Value of Money, contd	
Feb 4	Risk and Return	Read Ch 10 & 11
6		Work Ch 10: 4,14,16
11		Work Ch 11: 7,9,17(a,b only), 20
13	Long and Short Term External Financing	Major HW1 due Read Ch 13, Ch 19 (parts 1,2,6)
Feb 18 (Holiday)	-----	-----
Feb 20	Midterm Exam 1 (covers thru Risk and Return)	Study hard
25	Group Workday for Clarkson Case	(no formal instruction – work in groups on case)
27	Long/Short Term External Financing and Begin Valuation of Stocks and Bonds	Read Ch 5 & 6
Mar 3	Clarkson Lumber Case discussion	Clarkson Lumber Case due
5	Valuation of Stocks and Bonds	Read Ch 5 & 6
10		Work Ch 6: 7,13,17,23,24,25,30 Work Ch 5: 1,2,4,5,11,19,21
12	Investment Criteria/Capital Budgeting	Major HW2 due Read Ch 7,8,9
17,19	SPRING BREAK	
24	Investment Criteria/Capital Budgeting	Read Ch 7,8,9
26		Work Ch 8: 5,9,10,16,23,30 Work Ch 9: 3,18,22,24
31	Cost of Capital	Read Ch 12
Apr 2		Work Ch 12: 1,2,3,6,14,18
7	MiniCase Chapter 9 discussion & Begin Leverage	MiniCase Chapter 9 due
9	Leverage	Read Ch 15 Work Ch 15: 6,7,8,10,14,19(a,b only),22,32
14	Leverage and Begin International Financial Management	Read Ch 22
16	International Financial Management	Read Ch 22
21	Catch up and review; Other Topics in Finance	To be determined
23 (last day of class)	In-Class Individual Case Exam	