FINANCE 3720 MANAGERIAL FINANCE-II Winter 2018

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Class Hours: W 6:30 PM- 9:20 PM Human Health Building 2023

Office Hours: M 5:00 PM - 6:00 PM or by appointment

Course Description - The application of the tools of financial analysis to specific cases in the financial management of corporate businesses and nonprofit enterprises.

Course Objective- Managerial Finance II (FIN 3720) introduces tools managers use to make financial decisions. The goal of this course is to learn and apply to real world situations the concepts of time value of money, valuation of securities, capital budgeting, risk return trade-off, options and their use in corporate finance, capital structure and dividend policies. The focus will be on understanding the decision-making process and appropriate tools to be used rather than on mechanical calculations. The course material by its very nature is substantial and relatively unstructured. Students are expected to read the assigned material before coming to the class. This class will require participation of students in the discussion. Missing classes may make it difficult for the student to catch up. The textbook and other material, while helpful in understanding the concepts, are not substitute for lectures. I will assume that everyone is familiar with the chapters given in the course outline even if some of the topics are not discussed in the class.

Course Prerequisites: FIN 3220 and ACC 3010 or ACC 3100 and QMM 2410 or QMM 2500 or STA 2226 with a minimum grade of 2.0 in each course. This course will extensively use concepts covered in FIN 3220 (Chapters 1-15 of the required text for FIN 3220). It will be assumed that students are familiar with the concepts and that the students can apply those concepts to solve problems. If it has been a while since you completed FIN 3220, it will be a good idea to go through that material again.

Required Materials:

Ross, Westerfield, Jaffe, and Jordan (RWJ) – Corporate Finance, 11th edition. You do not need the S&P card.

I am going to post some additional material on Moodle. Please check moodle regularly for announcements.

<u>Financial Calculator:</u> Any good financial calculator that the student is comfortable with. It is expected that the students will familiarize themselves with the functioning of the calculator. Since, class time is limited there will be no tutorial on calculator in the class. **Some problems that we will do in the class and that will be asked in the exams can only be easily solved on a financial calculator. I will use excel extensively to solve problems in the class. However, you will be allowed to use only a calculator for in-class exams.**

Grading: Course grade will be based on the following components:

1 Mid Semester Exam
4 Moodle Quizzes
2 Assignments
20 pts
20 pts
Attendance
06 pts
Final
34 pts
Maximum Total
100 pts

There will be two assignments (10 points each) to be submitted on the days specified below. Late submissions will attract penalty. The due date for the assignments be posted on Moodle. The assignments must be submitted in groups of three. The assignments must be submitted as properly formatted Word Documents in Moodle. I will not accept any assignment submitted in a format other than Word. I may deduct up to 15% of the maximum points for the assignment if the submitted assignment is poorly formatted. If the names of any of the group member is missing on all pages, I will deduct 1 point from what you have earned. Similarly, I will deduct one point if the assignment does not contain page numbers like page 1 of 5, page 2 of 5 on each page of the assignment. Proper formatting guidelines are given on page 4 of the syllabus.

Group Formation: Students will inform me at the end of the first week of the class the names of the group members. If I do not hear from a student by the end of the first week of class, I will assign that student to a group.

Your final grade will depend on the total points scored out of the maximum 100 points. No grades will be awarded for individual components. There will not be any extra credits. In the past, the average grade for this class has ranged from 2.5-3.0. If you miss an exam, a home work, or an assignment you will get a 0 for that component.

Exam: Examinations will be a mix of short answer and calculation problems. The first mid-semester exam will be delivered via moodle, the second mid-semester exam will be in-class. All the three exams will be based on calculations and short essay problems. Final exam will be comprehensive. Quizzes will consist of multiple choice questions. You are free to make your own formula sheet containing just the formulas (no concepts) for the exams. There is no limit on the number of pages as long as there are just formulas on those sheets. I may give multiple versions of the exam.

Grading: To avoid any confusion, requests for regarding must be given in writing. If you feel that some other person received more points for essentially the same answer, I will increase your points also on production of proof.

Final Grade: Your final grade will depend on the total points scored out of the maximum 100 points. No grades will be awarded for individual components. There will not be any extra credits. In the past, the average grade for this class has ranged from 2.5-3.0. If you miss an exam, a home work, or an assignment you will get a 0 for that component. To arrive at your final grade, I will adjust the class average to 80%, if required, by awarding points. As an example, if the class average after the final exam is 78, I will give everyone 2 extra points. That will increase the class average to 80. The grades then will be based on your score out of 100 points as below:

Score (rounded to the 1 st decimal place)	Grade
90.0 - 100.0	3.6 - 4.0
80.0 - 89.9	3.0 - 3.5
70.0 - 79.9	2.6 - 2.9
60.0 - 69.9	2.0 - 2.5
50.0 - 59.9	1.0 - 1.9
<49.9	0.0

Laptop and Cell Phone Use during the Class: You are not allowed to use your laptop, iPad, or cell phones during the class. If it is urgent, you may step outside the class to attend to a phone call. The use of devices is distracting for other students.

General:

I will dispose all the unclaimed exams/quizzes on the first day of the following (FALL 2018) academic year.

1/3 - Introduction to Corporate Finance and Financial Statements & Cash Flows

RWJ - Chapters 1 and 2

1/10 - Financial Statements & Cash Flows & Discounted Cash Flow Valuation

RWJ - Chapters 2 & 4

Moodle Quiz 1 (Timed between 1/12 and 1/14)

1/17 to 1/24 - Capital Budgeting.

RWJ – Chapters 5, 6, and 7.3 (Real Options)

Moodle Quiz 2 (Timed between 1/26 and 1/28)

1/31 - Stock and Bond Valuation

RWJ - Chapters 8 and 9

2/7 - Risk and Return

RWJ – Chapters 10, 11 (Excluding 11.4, 11.5, and 11.7)

Assignment 1 due – Case 1 (Exact date will be announced later)

2/14 – Mid-semester exam

2/28 - Risk and Return

RWJ – Chapters 10, 11 (Excluding 11.4, 11.5, and 11.7), and 13

3/7 - Capital structure and Dividend Policy

RWJ – Chapters 14 and 15

Moodle Quiz 3 (Timed between 3/9 and 3/11)

Assignment 2 due – Case 2 (Exact date will be announced later)

3/14 - Capital structure and Dividend Policy

RWJ - Chapters 16 and 30

3/21 to 4/4 - Capital Structure and Dividend Policy

RWJ – Chapters 17, 18, 19, and 20

Article: "Raising Capital: Theory and Evidence" (Moodle)

Moodle Quiz 4 (Timed 1 hour between 4/6 and 4/8)

4/11 – Leasing

RWJ – Chapter 21

4/25 – Final Exam (7:00 – 9:00 PM). This date may change.

Information about Assignments

The assignments are based on Harvard Business School cases. I have selected cases which are challenging but appropriate for this class. You can download the cases from the link below. Please note that each case costs \$4.25. You may have to register and provide payment details to access the cases. There are excel supplements for the three cases. These supplements are provided free of cost.

http://cb.hbsp.harvard.edu/cbmp/access/72286871

Do not have to buy the optional item (audio version of the Marriott Corp. case):

(optional)

CASE

Marriott Corp.: The Cost of Capital (Abridged) (audio version)
Richard S. Ruback
Added on 2015-12-30
Show Details

General Notes:

- i) The assignments may be submitted in groups of no more than 3 persons.
- ii) The assignment must be submitted on Moodle. Only one group member should submit the assignment.
- iii) The submission must be a word or a pdf document. I will not accept excel or other formats.
- iv) Write the names of all group members on each page of the assignment. This can easily be done by inserting a header in word.
- v) Each assignment must have page numbers like: Page 1 of 5, Page 2 of 5 and so on. Again, this can be done in word easily by inserting a footer.
- vi) To complete the assignment, answer the questions given for each.
- **vii**) If there are tables in your assignment, each table must fit on a page. You can change the page orientation, remove dollar signs, remove decimal spaces for large numbers, and reduce the font to fit a table on pane page. Also, draw a border around tables and each cell as given below:

Year	1990	1991	1992
Sales	999.99	999.99	999.99
Costs	999.99	999.99	999.99
Taxes	999.99	999.99	999.99
Cash Flows	999.99	999.99	999.99

viii) Numbers must contain commas at appropriate places. For example, it is difficult to read 789465325.24. Make it 789,465,325. For such a large amount 0.24 does not matter.

Assignment 1 Stryker Corporation: In-sourcing PCBs Questions

- 1) State the business case for option #3, the PCB In-sourcing proposal.
- 2) Use the projections provided in the case to compute incremental cash flows for the PCB project, as well as its NPV, IRR, and payback period.
- 3) How would you compare this proposal to options #1 and #2?
- 4) Based on your analyses, would you recommend that Stryker Instruments fund this project?

Assignment 2 Marriott Case Ouestions

- 1) What is the estimate of the Weighted Average Cost of Capital for Marriott Corporation?
- a) What risk free rate and risk premium did you use to estimate the cost of equity?
- b) How did you estimate the cost of debt?
- c) What rate of returns should be used to estimate costs of equity and debt? Arithmetic or Geometric?
- 2) Estimate the WACC for the lodging and restaurant division of Marriott Corp.
- a) How do you measure the beta of each division?
- b) What risk free rate and risk premium did you use to estimate the cost of equity for each division?
- c) How did you estimate the cost of debt for each division?
- 3) What is the cost of capital for Marriott's contract services division? How can you estimate the cost of equity without any publicly traded companies? (Hint: Think of the firm as made up of three assets- restaurant, lodging, and contract services. You should be able to estimate cost of equity for the contract services division now by using 1) and 2) above.)

The Marriott case is based on the discussion we had about Chapter 13. Relevant Chapters to answer the questions are 10-13.