

# Baylor University

## Finance 4360

### Corporate Financial Management Spring 2015

**Dr. Steven P. Rich**

**Office: Hankamer 340**

**Phone Number: 710-4547**

**E-mail: [steve\\_rich@baylor.edu](mailto:steve_rich@baylor.edu)**

**Home page: <http://finance.baylor.edu/rich>**

**Backup Home page: [http://business.baylor.edu/steve\\_rich](http://business.baylor.edu/steve_rich)**

#### Course Objectives:

In Finance 4360, we examine how firms make optimal financial decisions. We explore this issue by discussing how cash flow, time, risk, information, market imperfections, the absence of arbitrage, and the presence of options affect corporate decisions about what assets to acquire, what assets to divest, and what sources of funding the firm should use. We will also discuss how Excel models can be used to help firms incorporate these factors into their decisions.

**Prerequisite:** C or better in Finance 3310

#### Office Hours:

Mon: 10:00 – 12:00

Wed: 10:00 – 12:00

Note: If I will be unavailable for some of my office hours, I will send out an email to the class. If possible I will also post a note on my door and make an announcement in class prior to the missed office hours.

#### Resources:

Required: Materials on my website (see above)  
Harvard's Online Spreadsheet Modeling Course (requirement waived if B or better in MIS 4355)  
Corporate Finance (3<sup>rd</sup> edition) by Berk and DeMarzo

Optional: Wall Street Journal (<http://www.wsj.com/studentoffer>)  
Wall Street Journal Weekly Quizzes  
Study Guide to accompany Corporate Finance by Simonson

#### My Home Page:

The internet is changing education. As a result, I teach Finance 4360 as a hybrid or blended class in which I attempt to help you learn about corporate financial management by using class time to discuss the best online and off-line resources on the subject. The online resources can be accessed from my Finance 4360 web pages or Canvas. My Finance 4360 website can be accessed from my main home page by following the "Class Info" link then clicking on the "Finance 4360" link.

## **Spreadsheet Modeling:**

Former students who work in the finance industry tell us they live in Excel, and students who have internships or job interviews have told us their Excel skills were inadequate when compared to students at other schools. To address these concerns, the finance department now requires that all students complete the Harvard Spreadsheet Modeling course as a part of Finance 4360. Note: You can also receive full credit for the spreadsheet modeling class if you email me a screenshot or provide other evidence that you have earned a B or better in MIS 4355 (Decision Making Using Excel).

In addition to requiring the spreadsheet course, I will require you to build and demonstrate well-functioning spreadsheets in class every day that relate to the notes we discussed the previous day. Before class, you will build a spreadsheet designed to solve a specific problem I have assigned from old quizzes and exams. See the list of required problems on my website. Build your models so that any of the input variables can be easily changed. The best way to do this is to have a separate area in the model where you enter each of these input variables in separate cells. Bring your spreadsheet to class on a laptop or make your spreadsheet available to yourself when using the computer at the front of the room. If you plan to use the desktop computer at the front of the room, bring your spreadsheet on a flash drive, email yourself a copy of the spreadsheet, or figure out some other method that allows you to access your spreadsheet from the desktop.

In class, you will also build a spreadsheet to solve a problem I assign each day. You will build these models in groups. I will randomly assign groups during the first part of the semester. You will choose your own groups later in the semester. Use the first part of the semester to: 1) demonstrate your Excel skills so that others will want to work with you later in the semester, and 2) observe the Excel skills of others so you can pick a good team to work with later in the semester.

## **General Daily Schedule:**

Each day our general schedule will be as follows: 1) demonstrate the assigned out-of-class spreadsheet model, 2) answer any remaining questions about problems on old quizzes related to the previous day's notes, 3) take a quiz over the previous day's notes, 4) talk through notes on the day's topic (see end of syllabus for schedule), 5) discuss relevant old quiz problems related to the day's topic, and 6) build group spreadsheet model related to out-of-class spreadsheet you built. You can leave once your group is done.

Out-of-class Spreadsheet Models: I will randomly call on several people to demonstrate their spreadsheet model for the assigned problem or problems. Note: See list of problems on my website.

Old quizzes: Before daily quizzes, you will have a chance to ask questions about problems from old quizzes. I recommend the following when working problems from old quizzes: 1) avoid looking at the keys until you think you have worked the quiz correctly or feel hopelessly stuck (you will not have answer keys when you take quizzes this semester); 2) keep working old quizzes until you have worked several in a row where your answers match the key; 3) work new problems rather than problems you have worked before or have heard explained. The hard part of finance is figuring out what to do. Once you have heard a problem explained, you will not learn much from working the problem. The same basic principle applies to reworking problems you have previously worked.

Daily quizzes: Daily quizzes will include three short-answer questions worth five points each over the previous day's material. In most cases, the answer should be a single number or a few words. In some cases, the answer might be a sentence.

Class Notes: While I will not lecture, I will talk through the notes during class. It will be up to you to ask any questions you have about the notes as we work through them. You will earn class participation points by answering questions I ask about the notes. If you are unclear about anything in the notes, be sure to ask your questions before I call on you.

Note: Obviously you won't be able to ask questions about the notes, ask questions about problems from old quizzes, or pass the daily quizzes unless you have studied the notes and worked through the old problems before you come to class.

In-class Group Spreadsheet Models: After I assign the day's problem, groups will work to build a model that solves a problem I have assigned that day. The first group to build a functioning spreadsheet that correctly solves the problem (even with new inputs) will get 100% of the day's group spreadsheet points. Subsequent groups will receive fewer and fewer points.

First three days of class (see schedule at end of syllabus): Since the structure of this class will likely be so different from others you have taken at Baylor, I thought I'd provide more detail on the first three days (have a look at the schedule at the end of the syllabus as you read over the following).

Jan 12: I will introduce myself and answer any questions you have about the structure of the class, this syllabus, my website, etc.

Jan 14: No spreadsheet due, no quiz, and no building a spreadsheet in a group. We will talk through the first part of the chapter 3 notes. As we do so, you will have a chance to ask questions about the notes and I will call on people to answer questions about the notes...why certain equations are used, why certain numbers are used in the equations, etc. At the end of class, you will have a chance to ask any questions you have about problems listed in "Old quiz topics" for Jan 14.

Jan 21: 1) I will call on people at random to demonstrate the spreadsheet model due on Jan 21 (see list of problems on my website); 2) You will have a chance to ask questions about the problems related to the previous day's topic (see topics for previous day...Jan 14); 3) Quiz on previous day's topic (notes and old quiz topics from Jan 14); 4) Discuss new notes (notes for Jan 21); 5) Discuss questions about problems related to today's notes (Old quiz topics listed for Jan 21); 6) Build group excel model related to previous day's topic (notes and old quiz topics from Jan 14).

## Grading:

Class Participation	100
Daily Spreadsheet Modeling	100
Group Spreadsheet Modeling	100
Daily Quizzes	300
Midterm	375
<u>Final</u>	<u>600</u>
Total Possible Points	1575

Your grade will depend on how many of these possible points you earn. Earning 1415 points will result in an A, 1400 an A-, 1355 a B+, 1260 a B, 1245 a B-, 1200 a C+, 1100 a C, 1085 a C-, 1040 a D+, 945 a D, and 930 a D-. Earning fewer than 930 points will result in you flunking the course.

Wall Street Journal Bonus Quizzes: Finance alumni consistently tell me that you need to read the Wall Street Journal every day. This is especially crucial in the semester you interview for a job or internship. To give you an incentive to read the WSJ daily, you will be able to earn bonus points for taking quizzes based on information in finance-related articles appearing in the Wall Street Journal. The quizzes will include two questions each from five articles from the prior Thursday through Wednesday (ten questions total). Each quiz will be worth five points for a total of up to 80 points for the semester (including the first week of class and the week of spring break). Eighty points can easily be the difference between a B+ and an A...or between a D and a C. I expect questions to come from articles on front pages of the "Front Section", "Market Place" and "Money & Investing" sections (these are pages A1, B1, and C1). The questions should cover the main points of the articles. Note: There are no page numbers on the iPad app. You should be ok if you look at the articles on "Page One" and the articles on the page that shows up when you click on "Marketplace" or "Money & Investing." (Click on the three horizontal bars in the upper right, then "Marketplace" or "Money & Investing", then the left side of the screen (the list of sections and stories on the right will disappear). The WSJ website usually lists page numbers and the physical paper always does.

Signing up for the Wall Street Journal: If you want to subscribe to The Wall Street Journal (the price is only \$15 for 15 weeks since you are enrolled in this class), follow the link on my web page. Note that when you subscribe, you are paying for access to all versions of the paper (online and hard copy). Once you have subscribed, you can enable the online version of the paper by following these steps: 1) go to [wsj.com](http://wsj.com), 2) sign into the customer center, 3) click on my subscriptions, and 4) activate your digital accounts.

Harvard Spreadsheet Modeling Class: The online class will help you build (or refresh) your Excel modeling skills. I will not require you to take the Introductory Section since it is pretty basic. But you will be required to successfully complete (pass the final of) the Advanced Section. Passing the Harvard final affects your grade as a multiplier. If you have not passed the Harvard final, I multiply all of the points you have earned in the class by 0. Once you pass the final, this multiplier becomes a 1. Note: I will also set your multiplier to 1 if you send me evidence of a B or better in MIS 4355.

Note: Signing up for the Wall Street Journal quizzes and Harvard's Spreadsheet Modeling course are done by class. As a result, you will need to sign up by following on the links in Announcements in the Canvas page for this class.

Daily Spreadsheet Modeling: You can earn spreadsheet points whenever I call on you to present your spreadsheet to the class. The points you earn for your spreadsheets will depend on whether your new answer is correct after I ask you to change one or more input variables in your spreadsheet.

Daily Quizzes: Daily quizzes will be worth 15 points each. I will count your 20 best quizzes out of the 22 quizzes this semester. If you are sick, do not come to class (or my office)! I will count you as excused from the quiz. I will also excuse you for job interviews. I won't excuse you for campus activities that you choose to participate in. If you are excused from a quiz, I will use the average score on the quizzes you take over the semester as your grade on the missed quiz.

Midterm and Final: The midterm will consist of five problems worth 75 points each and the final will consist of eight problems worth 75 points each. The midterm will cover chapters 3, 4, 5, 7, 8, and 11. The final will cover everything we discuss this semester. Grades on the midterm and especially the final tend to be low. Use the quizzes and Wall Street Journal bonus quizzes to build up a cushion.

## **Course Policies:**

Honor Code: Violations of the honor code (including cheating and not reporting cheating) will result in an F in the course and possible expulsion from the University.

Attendance Policy: The business school attendance policy states that students will receive an "F" in a class unless they attend at least 75% of all class sessions. I will use the quizzes to determine your absences.

Technology during quizzes and exams: During quizzes and exams, you may not at any time bring out (from your backpack or pockets) a computer of any kind (including handhelds), or a phone, or a calculator that contains text related to this class. I reserve the right to flunk anyone who breaks this rule for any reason. I will project the current time on the screen at the front of the room so that you will know what time it is even if you use your phone as a clock.

Statute of limitations: A two-week statute of limitations applies to appeals on grading. The two-week period begins when I post grades for quizzes and begins on the first day of next semester for the final.

## Schedule for Semester:

- Jan 12 Introduction to class  
14 Notes: Chapter 3 – Sections I, II.A, and II.B;  
Old quiz topics: Short Sales, No-Arbitrage Pricing of Risk-Free Securities, Securities Arbitrage  
19 Martin Luther King, Jr. Day: No class or office hours  
21 Notes: Chapter 3 – Sections II.C, II.D, and II.E;  
Old quiz topics: Security Risk Premiums, Market Risk Premium, Risk Arbitrage, Portfolio Arbitrage  
First daily spreadsheet model discussed  
26 Notes: Chapter 4; Old quiz topics: Time Value of Money  
28 Notes: Chapter 5; Old quiz topics: Compound Interest, Compounding
- Feb 2 Notes: Chapters 7 (Review from 3310) and 8; Old quiz topics: Capital Budgeting, Free Cash Flow  
4 Notes: Chapter 10; Old quiz topics: Measuring Risk and Return  
9 Notes: Chapter 11 – Sections I and II; Old quiz topics: Portfolio Risk and Return  
11 Notes: Chapter 11 – Section III; Old quiz topics: Graphs of Portfolios of Risky Assets  
16 Notes: Chapter 11 – Section IV;  
Old quiz topics: Portfolios with Risk-Free Security, Graphs with Risky and Risk-free Assets, Sharpe Ratio  
18 Notes: Chapter 11 – Sections V and VI;  
Old quiz topics: Market Risk and Beta, Betas and the Capital Asset Pricing Model, Betas of Portfolios  
23 Review for midterm: prepare by working old midterms and relevant problems from old finals  
25 Review for midterm: prepare by working more old midterms and relevant problems from old finals
- March 2 Midterm Exam  
4 Notes: Chapter 14; Old quiz topics: Leverage and Perfect Capital Markets  
9 Spring Break: No class or office hours  
11 Spring Break: No class or office hours  
16 Notes: Chapter 15 – Sections I, II, III, IV.A, and IV.B;  
Old quiz topics: Tax-optimal Leverage with Risk-free Earnings  
18 Notes: Chapter 15 – Sections IV.C and IV.D  
Old quiz topics: Tax-optimal Leverage with Risky Earnings  
23 Notes: Chapter 16; Old quiz topics: Other Issues in Capital Structure  
25 Notes: Chapter 20 – Sections I and II; Old quiz topics: Payoffs on Options  
30 Notes: Chapter 20 – Sections III, IV, and V;  
Old quiz topics: Profits/losses on Options, Put-call Parity
- April 1 Notes: Chapter 20 – Sections VI and VII;  
Old quiz topics: Options and Corporate Finance, Options and Bonds  
6 Easter Holiday: No class or office hours  
8 Notes: Chapter 21 – Section I.A; Old quiz topics: Single-Period Binomial Option Pricing Model  
13 Notes: Chapter 21 – Section I.B; Old quiz topics: Multiperiod Binomial Option Pricing Model  
15 Notes: Chapter 21 – Section II;  
Old quiz topics: Black-Scholes Option Pricing Model, Black-Scholes: Replicating Portfolios  
20 Notes: Chapter 21 – Sections III and IV;  
Old quiz topics: Option Betas, Debt and Asset Betas, Beta of Debt  
22 Notes: Chapter 22; Old quiz topics: Decision Trees, Options to Expand or Abandon  
27 Review for final: prepare by working old finals  
29 Review for final: prepare by working more old finals
- May 6 2:00 – 4:00: Final for 2:30 class  
8 4:30 – 6:30: Final for 1:00 class  
11 9:00 – 11:00: Final for 4:00 class

Note: According to Baylor policy, everyone must take their final at the scheduled time unless they have three (or more) exams on the same day. If you have three (or more) finals on the same day, email me about taking your final with one of my other 4360 classes.