# **Baylor University**

# Finance 4360

Corporate Financial Management Fall 2024

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## Finance 4360 Overview:

In Finance 4360, we examine how firms make optimal financial decisions. We explore this issue through discussions of how cash flow, time, risk, information, market imperfections, the absence of arbitrage, and the presence of options determine the value of real and financial assets. You should also gain an understanding of how to use Excel to analyze corporate financial decisions.

Prerequisite: B – or better in Finance 3310

### **Office Hours:**

Mon:	11:00 - 12:00; 1:30 - 2:15
Wed:	11:00 - 12:00; 1:30 - 2:15
Fri:	11:00 - 12:00; 1:30 - 4:00

Note: If for some reason I will not be available for some of my office hours, I will post a note on my door. If possible I will also send out an email and/or make an announcement in class prior to the missed office hours.

#### **Resources:**

Required:

1. Class web page: <u>https://business.baylor.edu//steve\_rich/corp/fin4360.html</u> Note: You can also get to my 4360 website by following the links from my home page: <u>http://business.baylor.edu/steve\_rich</u> which you can find by googling "steve rich baylor".

2. <u>Corporate Finance</u> (6th edition) by Berk and DeMarzo. (This is the latest edition of the book). Note: Do not get either the Global Edition or the Core Edition of this book.

Highly Recommended, but not required:

MyEducator: Excel: See section later in syllabus and link on Canvas if you feel week on Excel or didn't use MyEducator in your FIN 3310 class.

MyLab Finance from Pearson: See link on Canvas and discussion in this syllabus.

Wall Street Journal - See the link on my FIN 4360 website for free access to the digital version for Baylor students. Several Baylor finance alumni have told me how important it is for finance majors to read at least the front pages of sections A and B every day.

# Grading:

Class Participation	200
Excel Assignments	100
Chapter Quizzes	600
In-class group Excel	100
Midterm	375
<u>Final</u>	<u>600</u>
Total Possible Points	1975

The minimum points you will need to earn (out of these possible points) for various grades are as follows: A = 1778; A -= 1758; B+ = 1719; B = 1580; B -= 1561; C+ = 1521; C = 1383; C -= 1363; D+ = 1324; D = 1185; D -= 1166

**Lecture Notes:** Bring the partial lecture notes with the examples left blank. I will work through the examples in class. The set of partial lecture notes where both the examples and the text are left blank are for you to copy from the complete notes outside of class if you think that will help you. You won't have time to fill those out in class.

Class participation: You will earn participation points by asking questions for your classmates or me to answer and by answering questions from your classmates or from me about the notes, textbook, and homework problems. The points you earn will depend on the quality of your questions and answers. I will mark down on my seating chart a "score" ranging from 1 to 4. These translate into points out of 200 as follows (score = points): 1 = 95; 2 = 155; 3 = 170; 4 = 200. I also often give X.5 points and these translate to points out of 200 as follows: 1.5 = 120; 2.5 = 160; 3.5 = 180. The <u>quality of a question</u> (and thus your "score") generally depends on how much thinking someone needs to do to answer. Basic questions ask "what?" and will generally receive a 2, better questions ask "why?" and will generally get a 3, even better questions pull together more than one idea discussed in the class and/or relevant material from outside the class...especially current events such as you would find in the Wall Street Journal and will generally get a 3.5. The best questions stump everyone including Dr. Rich and will receive a 4. The quality of an answer depends on how clearly and completely you have answered the question. Your participation score for the semester will equal your average score across daily discussions this semester. I will only count your best score for each day and plan to post participation grades at the end of each week. Scores of 4 are rare but happen from time to time. Having no homework or being absent when I call on you counts as a 0 for the day. But since I only count your best score for each day, any question you ask or answer that day replaces the 0.

Your score for the semester will equal an average of your best 10 daily scores. But everyone starts with a seed value of 120/200. If you are satisfied with a 120, you never need to participate unless I call on you to discuss your homework answers. The 120 will be averaged in with your other participation scores, but if you participate 10 days or more over the semester, the 120 no longer affects your average since I only average your best 10 daily scores for the semester.

**Spreadsheets**: Those who work in the finance industry (alumni with full-time jobs and current students who have had internships) tell us they spend a lot of time working in Excel. As a result, Excel modeling is now a core component of the finance major. To help you build your Excel modeling skills, I will require you to build and demonstrate well-functioning spreadsheets in class that relate to the chapters we cover. You will build these spreadsheets before class to solve one or more of the assigned old quiz problems. The problems you will have to solve for each chapter are listed by chapter in a document on my class website. Build your models so that <u>ANY</u> of the numbers given in the problem can be easily changed and you can easily find the new answer. The best way to do this is to have an area where you enter numbers for each of the given values for variables and a separate area with an answer that you can find easily. For multistep problems, I also recommend a separate area for each step's calculations. I put this area on my spreadsheet below the other two areas. This leaves a clear area for changing inputs and seeing the new answer.

You can either bring your spreadsheet on a laptop or tablet. If you have neither of these, you can use the computer at the front of the room to demonstrate your spreadsheet. If you plan to use the desktop computer at the front of the room, you will need to plan on how you will access your spreadsheet from the desktop.

In class, I will speed-check spreadsheets by: 1) identifying a variable whose value I will change, 2) identifying four or five people who will be required to change that variable, 3) calling out one of the names and a new value for the variable, 4) noting whether the person I have called on has the correct new answer, and 5) repeating steps 1 through 4 as needed.

Spreadsheet points depend on whether your spreadsheet gets the correct answer once I change one of the input variables in class. If your answer is correct, you get a 100 for the spreadsheet. If it is incorrect, you get a 50. Not demonstrating a working spreadsheet when I call on you gets as a 0. Challenge questions: For many spreadsheets, I have a challenge question worth 120 or 140 if you get it correct, but which don't reduce your score if you get it wrong. If you want to try the challenge problem, let me know this when I call on you. Even if you didn't get the normal problem correct, you can still attempt the challenge problem before we leave the room (or the next class comes in) and receive credit for it. Your grade for the semester equals the average of the six best scores you received when I called on you to demonstrate your spreadsheet.

When building spreadsheets, I think it is best to try to figure out the finance associated with any problem before figuring out how to model the problem in Excel. For tough problems, I recommend solving the problem by hand first and then in Excel. I recommend solving all homework problems (rather than just those assigned as spreadsheet problems) both on paper and using Excel. This will help you build your Excel skills and your finance skills.

If your spreadsheet is not getting the check figure, I recommend checking your parentheses. If this doesn't fix it, I recommend working pieces of the solution by hand and comparing these numbers to those in your spreadsheet. This is more helpful if you have built your solutions in pieces rather than having one big equation that solves the entire problem.

I encourage you to work in groups when building spreadsheets. You will learn more this way. But you need to understand the process yourself. You will learn little from copying (or using) someone else's spreadsheet.

**Chapter Quizzes**: Chapter quizzes will be taken on Canvas and will consist primarily of multiple-choice questions from the book publisher. Each of the 12 quizzes (all chapters we cover except 7) will have 10 questions worth 5 points each. The quizzes are thus worth 600 points total. If you think a question was scored incorrectly, let me know. Quizzes will remain open after the due date, but with a late penalty per day.

Notes on chapter quizzes:

- 1) The chapter quizzes are "closed book". You can only use what you have learned and a clean copy of the formula sheet from my website (or Canvas). You can also use Excel or a calculator.
- 2) I recommend that you <u>use Chrome to take quizzes</u> since students seemed to have fewer issues (such as charts not loading) when using Chrome to take quizzes.
- 3) As was the case last semester, quizzes will remain open after the due date, but with a penalty of 0.5% per day.
- 4) Don't wait to take quizzes until after the due date. They will just pile up on you, we will continue to cover new material, and if you wait too long, the late penalty will wipe out your score.

**Preparing for quizzes**: Solving problems and answering questions in the textbook is one of the best ways (probably the best way) to prepare for quizzes. When working problems and answering questions, I recommend the following: 1) avoid looking at any answers until you think you have worked a problem correctly or feel hopelessly stuck (you will obviously not have access to answers other than your own when you take quizzes); 2) keep working problems until you have worked several in a row where your solutions are correct; 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 nearly as much from working it. The same basic principle applies to reworking problems you have previously worked. Rather than reworking a problem, try working a problem you have not seen before. There are many more problems in the

text than the ones I have assigned. You can also find additional problems for some topics on old quizzes and exams on my Finance 4360 and my old Finance 3310 websites. After you have tried the problems yourself, I recommend that you get together with a group to discuss the solutions. As you explain your solutions and/or ask others about their solutions, you will learn a lot more about finance than you would on your own.

**MyLab Finance**: I recommend working through the Study Plan and/or Dynamic Study Modules on MyLab Finance. See the link on Canvas called "Access Pearson" to access the MyLab class I set up for this semester. MyLab is not required, but I think you will learn more and earn higher scores on quizzes if you buy access to it. I also prefer the etext that comes with MyLab to the print copy of the text.

**In-class Group Excel**: There will be two in-class group spreadsheets worth 50 points each. Scores on in-class group excel problems will depend on how many times your group must try again before building a spreadsheet that correctly solves the problem. Getting the correct answer on the first or second attempt gets 50 points. Each subsequent attempt reduces the score by 5 down to a minimum of 40. Correctly solved means you get the initial check figure plus the new correct answer when one or more of the numbers given in the problem change. Check your group's solution against Dr. Rich's when you are confident you have a correct spreadsheet solution. I will give a copy of the problem to each person. Put your name on your copy of the problem. After your group has correctly built the spreadsheet (or when time is up), staple all your group's copies together with the <u>one copy</u> with the number of tries you needed on top of the stack. You are free to leave after your group checks its solution. Be sure your copy of the problem is stapled with everyone else's in your group. Otherwise, you will not receive credit for the spreadsheet solution.

**Midterm**: The midterm will include five problem/essays worth 75 points each. The midterm should cover through Risk and Return (chapter 11). **Unless the problem states to calculate a number answer, the points you get are for setting things up. Solving to a number adds no points.** 

**Final**: The final will include eight problem/essays worth 75 points each. The problem/essays will be comprehensive and so relate to all the material we cover this semester. **Unless the problem states to calculate a number answer, the points you get are for setting things up. Solving to a number adds no points.** 

**Preparing for exams**: My recommendations for preparing for exams are essentially the same as for preparing for quizzes. Work lots of problems to prepare for exams. When working problems, I again recommend that you: 1) avoid looking at any answers until you think you have worked a problem correctly or feel hopelessly stuck (you will obviously not have access to answers other than your own when you take exams); 2) keep working problems until you have worked several in a row where your solutions are correct; 3) work new problems rather than problems you have worked before or have heard explained. When studying for the midterm and final, I also recommend that you practice with old midterms and finals on my website. Memorizing the solutions won't really help you since the problems on your midterm and final won't be the same. But understanding all the equations and all the numbers in those solutions are a good sign you are ready for this semester's exams. Also, I highly recommend starting with the exams rather than the keys, then using the keys to check your solution after you think you have a problem correct. Recognizing that a solution is correct is not the same as coming up with that solution yourself.

**Microsoft Excel Collegiate Challenge:** You can earn bonus points for participating in the <u>Microsoft Excel</u> <u>Collegiate Challenge</u> (MECC). Former students said MECC was hard, but beneficial. This semester, like last semester I will give bonus points for participating as follows:

First and second exam/assignment with "Challenge" or "Training" or "Case" in the name: 5 points each. Third exam/assignment with "Challenge" or "Training" or "Case" in the name: 15 points.

Online live competition in the fall: 25 points.

Post-competition versions count as an assignment and thus 5 or 15 points.

Note: You need to earn something more than a 0 to get the points. Note that assignments will become available throughout the semester and you can participate in any of the current challenges.

Reason I am giving bonus points for participating in MECC: Excel skills are crucial in a finance career and in some upper-level finance classes. Some of my former students have told me that financial modeling with Excel played a role in later rounds of job interviews.

Deadline: I will count the bonus points you have earned by the last day of class on December 9. Be sure to have

finished what you want by then.

#### **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.

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 exams.

#### **Recommendations:**

Homework: Working homework problems is one of the best (if not the best) way to learn the material for this course. And the best problems for working to prepare for the quizzes and exams I write are problems from quizzes and exams I wrote in the past. I therefore highly recommend that you work the problems from old quizzes and exams on my website. The textbook also has many good problems you can work, but these are often VERY long with multiple steps. While the textbook problems are more complex than problems you will work on quizzes and even the final, they are good practice for the kinds of problems you will face after you graduate. I also suggest that you write out answers to the "Concept Checks" for each section and definitions for the "Key Terms". When working homework problems, I recommend that you avoid looking at the book, the notes, and especially the solutions until you get stuck or think you have the correct answer. After you have tried the problems yourself, I recommend that you get together with a study group to discuss the homework. As you defend your answers and/or ask others about their answers, you will learn a lot more about finance than you would on your own. Warning: The hard part of finance is figuring out what to do. Once you have heard a problem explained, you will not learn as much from working the problem. The same basic issue applies to problems you have worked before. Rather than reworking a problem, try a problem you have not seen before. My website and the book contain a LOT of practice problems.

Spreadsheets: I recommend that you solve all homework problems using Excel in addition to solving them using pencil, paper, and calculator. Most of the problems from old quizzes and exams will be easy to model in Excel, but many of the textbook problems should provide a nice challenge. In fact, some of the problems in the textbook are essentially impossible to solve without using Excel.

# **Tentative Schedule:**

# **Tentative Schedule (Fall 2024):**

Note: See Canvas for chapter quiz due dates

Aug	26	Seating chart, Q&A on class, lecture on chapter 3 through IIB.
	28	Lecture on the rest of chapter 3
Sept	2	Labor Day
	4	Check Excel and homework for chapter 3; Lecture on chapter 4
	9	Check Excel and homework for chapter 4; Lecture on chapter 5
1	11	Check Excel and homework for chapter 5; Lecture on chapters 7 (Q&A) and 8
	16	Check Excel and homework for chapters 7 & 8; Lecture on chapter 10 (Q&A)
1 2 2 3	18	Check Excel and homework for chapter 10; Lecture on chapter 11 sections I and II
	23	Lecture on chapter 11 section III
	25	Lecture on chapter11 section IV
	30	Lecture on chapter 11 rest of chapter
Oct	2	Check excel and homework for chapter 11; Review for midterm: prepare by working old midterms and relevant problems from old finals
	7	Midterm (through chapter 11)
9 11 14 16 21 23	9	Lecture on chapter 14
	11	Fall Break
	14	Check excel and homework for chapter 14; Lecture on chapter 15 through section III
	16	Lecture on chapter 15 rest of chapter
	21	Check Excel and homework for chapter 15; Lecture on chapter 16
	23	In-class group Excel on chapter 15
	28	Check Excel and homework for chapter 16; Lecture on chapter 20 sections I, II and III
	30	Lecture on chapter 20 sections IV and V
Nov	4	Lecture on chapter 20 rest of chapter
	6	Check excel and homework for chapter 20; Lecture on chapter 21 section IA
	11	Lecture on chapter 21 section IB
13 18	13	Lecture on chapter 21 section II
	18	Lecture on chapter 21 sections III and IV
	20	Check excel and homework for chapter 21; Lecture on chapter 22
23 -	-12/1	Thanksgiving break
Dec	2	Check Excel and homework for chapter 22; Lecture on chapter 17
	4	In-class Excel on chapter 21
	9	Check Excel and homework for chapter 17; Review for final
	12	Final exam for 2:30 MW class; 4:30 – 6:30
	16	Final exam for $4.00 \text{ MW}$ class: $4.30 - 6.30$

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, talk to me about taking your final with my other 4360 class.