

BA 140 – FUNDAMENTALS OF FINANCE

COURSE DESCRIPTION

The course is a study of the principles of corporate finance and their application in business today. Topics include valuation theory, financial planning, management of cash, receivables and inventory, capital budgeting, and on the long term financing decision.

COURSE OBJECTIVES

By the end of this course you should:

- Understand the vocabulary of financial markets.
- Know how to utilize financial statements for financial decision making.
- Comprehend the relationship between risk and return.
- Gain knowledge of present value and the capital asset pricing model.
- Be able to evaluate capital spending options for profitable growth.
- Know how to value businesses.

REQUIRED TEXT AND MATERIALS

Financial Management, Theory and Practice, Brigham and Ehrhardt, 12th Edition

- This textbook lays out the principles of finance in a very readable manner.
- It has many examples, and a collection of self-test problems at the end of each chapter that will help you to understand the material. Detailed solutions to the self-test problems are given in Appendix A.
- It also has a variety of end of chapter problems, whose answers are given in Appendix B. They will help you practice for exams.
- As in most fields, acronyms and symbols are popular in the field of finance. The inside of the front cover lists them for quick reference.
- Appendix C contains selected equations from each chapter. However, instead of relying on these equations, I highly recommend that you put together your own formula sheet, which can be used in the exams. Also, you can use laptops with Excel or calculators to solve exam problems.

A laptop computer with Excel and/or a calculator (HP 12C or HP 10B) is required.

I use a 12C as it is easy to use, been in existence for many years and is still very popular for financial calculations. Either is fine although my preferred choice is Excel. It will allow you solve problems and do it in a spreadsheet format. Spreadsheet format provides you with a big picture view, spots trends, errors, and identifies problem areas.

TEACHING STRATEGY

We will cover the material in the course with lectures, discussions, examples of real world applications through current events, classroom work, case analyses and out of class assignments. In class I will focus on conceptual and numerical issues, and I expect you to pick up the descriptive material from your readings. Reading the chapters ahead of class will help you to ask good questions, and make it easier for you to work on the problems and participate in class discussions. I will assign out of class work at each session. It is important to have these completed in advance of the next session since we generally meet every other week. If you are absent please contact me for the next session(s) assignments.

I expect you to use a calculator or Excel for problems and case analysis. If you plan to use a calculator, make sure it can calculate the present value and the internal rate of return (IRR) of a:

- Lump sum
- Annuity
- Uneven stream of cash flows.

GRADING

Homework	20%
Term Project	20%
Midterm Exam	30%
Final Exam	30%

TERM PROJECT – Cost of Capital and Valuation Estimation

Group Assignment:

Each cohort team will choose an industry sector to research. Your team will then present to the class their industry findings. Please keep the presentation to a 10 minute maximum (~4 to 6 sides). A pc projector will be available for your power point presentation. Please make sure your slides are large enough to be seen at the back of the class.

In summary, the group presentation should contain the following:

- Overview of industry
- Analysis of its financial performance
- Recommendation of investment potential

Individual Assignment:

As a follow up to the team presentations, each team member will choose a company within that industry sector. Each team member will report to the class after your group's industry presentation. Please limit your power point presentation to 10 minutes (~ 6 slide maximum).

Objective - is to estimate the cost of capital and valuation for a company

Phase 1:

1. Use a publicly traded company
2. Find its most recent financial statements
3. Review the relevant market data
4. Determine the market value of the firm's common stock (and preferred stock if applicable)
5. Calculate the yield (rate of return) on the firm's bonds

Phase 2:

1. Calculate the rate of return that investors expect to earn from the firm's common and preferred stock
2. Calculate the market value of the firm's bonds

Phase 3:

1. Calculate the firm's cost of capital

Phase 4:

1. Prepare a valuation model for the Company and make a recommendation as to its investment potential.

Research resources available include:

Company web sites - provide information of varying quality.

Financial links - try search services Yahoo Finance, FINRA and websites provided with the textbook.

Term Project Presentation

Present your results to the class during our last session. Also submit a copy of the slide deck with summary tables and charts.

BA 140 - COURSE SCHEDULE (Tentative – Depends on Interest and Topic Understanding)

<u>Session</u>	<u>Topic/Assignment</u>
1(1/15)	Course Introduction, Financial Headlines & Overview
2 (1/22)	Financial Management and the Financial Environment - Chapter 1
3 (1/29)	Time Value of Money - Chapter 2
4 (2/5)	Securities Valuation: Bonds - Chapter 5
5 (2/12)	Bond Valuation Project
6 (2/19)	Securities Valuation Continued: Risk, Return and Capital Asset Pricing Model - Chapter 6

- 7 (2/26) Securities Valuation Continued
Stocks - Chapter 8
- 8 (3/5) Midterm Exam (Chapters 1,2,5,6 & 8)
- 9 (3/12) Capital Budgeting
- 10 (3/19) No Class – Spring Recess
- 11 (3/26) Cost of Capital - Chapter 10
- 12 (4/2) Basics of Capital Budgeting - Chapter 11
- 13 (4/9) Corporate Valuation Model Read Chapter 15
- 14 (4/16) No Class - Prepare Term Project
- 15 (4/23) Corporate Valuation - Chapter 15
- 16 (4/30) Present Term Project
- 17 (5/7) Final Exam
- Covers subjects in chapters 10, 11, & 15