I. Course Focus and Objectives

1. To obtain an understanding and ability to use basic business financial management concepts and tools of analysis such as valuation, risk-return relationships, financial statement analysis, capital budgeting, cost of capital, capital structure, and working capital management.
2. To become familiar with the various types of financing available to a firm.

II. Student Learning Outcomes

1. Explain how domestic financial markets work and how firms obtain funds in the financial markets and at what cost.
2. Apply basic valuation concepts to valuing various types of cash flow streams.
3. State and explain what determines the value of a firm’s securities and how management can influence these values.
4. Measure a firm’s risk, explain what determines this risk, and how this affects the value of a firm.
5. Analyze a firm’s performance to determine its strengths and weaknesses, and use financial analysis to make suggestions for improving performance.
6. Forecast a firm’s financial needs.
7. Point out the various methods for analyzing projects, apply them, and specify what to do if there are conflicting recommendations.
8. Identify and explain the tradeoffs involved and the techniques used to manage working capital.
9. Explain what leverage is, how a firm influences its leverage, and how leverage affects a firm.
10. Describe how firms raise money in foreign markets and the traditional types of risks that multinational firms are exposed to.

III. Course Materials

1. Lecture notes posted on Blackboard weekly
   - They are in the form of PowerPoint slides. Note that there are many slides per topic. I may not have time to cover all of them, but will focus on the important ones.
   - Students who like to learn more should look at all of them.
• They are **subject to change**.
• I may add some slides to clarify the points that the class doesn’t understand or other interesting materials that will benefit all of you. I may also delete some topics that we do not have time to cover in class. Thus, do not get upset if I change, delete, or add some slides. I will notify you by writing a short note on BB under updated lectures when there is any change.


• Available for purchasing at the SDSU library
• The study guide is OPTIONAL.
• The book must include MyFinanceLab package. If not, you have to buy it separately at [http://www.myfinancelab.com/register](http://www.myfinancelab.com/register)

With the course ID:
**Code ID: XL0R-41DX-501Z-58J2**

• If you plan to use an older edition, you need to compare your copy with the latest edition to make sure you have the same information covered in the class.

3. **Business newspapers and journals:**

• Get in the habit of reading news about international financial markets, institutions, and firms on a weekly basis. The Wall Street Journal, Business Week, The Financial Times, and The Economist are my favorites.

4. **A financial calculator**

• It is necessary for you to purchase a financial calculator for this course. Financial calculators will help you solve the problems in the midterm and final examinations. Financial calculator is important to learn finance. For instance, bond or capital budgeting normally requires you to compute net present value over 10 periods, at least. Therefore, using a regular computer, although possible, will take time and you might not be able to finish the exams on time.
• This is a tiny small amount of your investment. I can assure you WILL need it for the other finance classes in both undergraduate and graduate levels.
• An excellent financial calculator is Texas Instruments BAII Plus or Hewlett Packard 17BII. You are responsible to learn by yourself using the calculator. The instructor will **not** cover the teaching of the use of calculator. An example of Financial Calculator Tutorial can be found here
• [http://www.youtube.com/watch?v=AtQjNkkOHcy](http://www.youtube.com/watch?v=AtQjNkkOHcy)

**IV. Grading**
1. 4 exams  20% each  
2. Individual project  10%  
3. Quizzes  10%  

V. Exam dates  
The 1st midterm exam - September 20, 2012  
The 2nd midterm exam - October 18, 2012  
The 3rd midterm exam - November 15, 2012  
Final exam - December 11, 2012  

Important:  
Please bring a scantron (green type) on the above exam dates.  

Due to the traits of financial economics, the exams will be cumulative of all material that have been taught and will test the ability to integrate the knowledge learned.  

The instructor reserves the right to make changes in this tentative test dates with an early notification to students.  

VI. Individual Project Due Date  
• Email me directly about your stock and on Blackboard by September 11th, 2012 before noon.  
• If you don't get my confirmation from your stock pick, it means your choice is OK. I will let you know if it's not ok.  
• For those of you who gave me more than 1 choices, please pick any of them.  
• We do not have a list of stocks for you to pick, so you can pick anything.  
• You can use the data up in the past until NOW to perform the analysis of your individual project. No time limit in term of data usage.  
• The stock has to be different for each person; thus, the priority is on a first-come-first-serve basic.  
• The due date is December 6th, 2012 before noon  

VII. Exam Formats and Solutions  
The format for the exams most likely consists of multiple choice type questions. Material for the exams will come from assigned readings and problem sets for the covered chapters of the textbook along with the lecture notes. It is essential and helpful to understand how to solve the chapter-end questions in the preparation for the exams. If you can solve and understand those questions, you should be fine in the quizzes and exams.
I will not return your exam but you are welcomed to make an appointment with me to see your exam. I may talk about the solution of the exam if time permits.

Exam questions will not include those related to how to use an Excel spreadsheet to solve a problem.

You need a financial calculator for the exam. For instance, it needs to provide a function you can compute net present value, payment in each period, interest rate, number of periods etc. If there are more 10 periods, it will be difficult for you to use a regular calculator to solve the questions on time. All in all, if you want to take this class, you need a financial calculation.

This is a small amount of your investment in education. It costs only 80 USD at Staple, Target, Walmart and other regular stores. You will need it for the rest of your education in finance, economics, or accounting.

VIII. Quiz

Quizzes are available online through MyFinanceLab. I will let you know when it will be in advance. You can do these quizzes outside class.

Quiz is not graded until the end of the semester and you can do it anytime during the semester.

IX. Percentile and Letter Grades

You will be graded on a curve, not on absolute scale. Each session has its own curve. We do not combine the grades of all sessions. The grade will not be curved until the end of the semester.

According to the grading policy of the finance department,

“Grades shall genuinely distinguish between high and low levels of academic achievement. Undergraduate grades shall be: A, outstanding achievement; B, praiseworthy performance; C satisfactory performance; D, minimally passing and F, failing.

The grade for average undergraduate achievement shall be C.”
X. Tips to succeed in this class

Finance is integrated management science of économiques, accounting, statistics, and calculus. Therefore, it is difficult to avoid applying algebra to understand the problem and find solutions in finance.

You are expected to spend at least 12 hours a week to study this course the semester. Otherwise, you cannot expect a passing grade if you fail to commit so.

PRACTICE, PRACTICE, and PRACTICE questions!

Practice all of the questions at the end of chapters and understand them. They are available through MyFinanceLab. Don’t memorize the solution of those questions because the exam questions and numbers will be different but they have the same style.

In addition, don’t memorize the formula. Finance is about understanding and it is intuitive.

XI. Homeworks

Practice questions or the end-of-chapter questions are available through MyFinanceLab.

They are not graded and you are not required to submit any of them. Nevertheless, you should practice them on a weekly basis since they will help you understand the materials and do well in the exam.

XII. Cheating

You will submit your individual project through SafeAssign, which will check for plagiarism.

Since we will use SafeAssign in the course, please read a below statement before you decide to take this course. It is a requirement by SDSU that I have to notify you about this.

“By taking this course, you agree that all required papers may be subject to submission for textual similarity review to SafeAssign for the detection of plagiarism. All papers submitted for review will be included as source documents in SDSU’s SafeAssign institutional archive. Students are also encouraged to include their papers as source documents in the SafeAssign Global Reference Database by checking the appropriate box during assignment submission. You may remove personally identifying information from your paper prior to submission.”

The bottom line is cheating is forbidden! Students who submit any works that replicate other students’ works from current or previous semester or the solution that I disclosed to students in past semesters will be regarded as cheating.
Moreover, submitting a solution that is available from *any public domain* is regarded as cheating.

In the exams, students who cheat or try to cheat will get a failing grade and appropriate action, following the university policy, will be taken.

**XIII. Make-up exam**

Please note that there will be **NO** makeup and early exams given. Any student who misses or does not take more than one of the midterm exams will automatically fail this course. Missing two or more midterm exam makes you ineligible to take the final in this course.

No student can pass this course without taking the final exam at the end of the semester.

**XIV. Regrading**

There have been a few cases in the past where regrading resulted in a slight decrease rather than an increase. If you absolutely believe that a mistake had been made, submit a letter providing reasons why your exam should be regraded.

**XV. Email**

I will address your question on “Announcements” via BB so that the rest of the class will get the same information. Keep in mind that I get quite a lot of emails every day and, therefore, may not be able to address every email immediately. So, please be patient. Due to our university budget cut, the GA assistance is limited, thus email me only if necessary.

For important matters, come to an office hour (listed on the first page) or discuss with me during a break or after class.

**XVI. Access MyFinanceLab**

Quizzes and other practice questions will be assigned through MyFinanceLab, an online companion to the textbook.

Please click the following link and input the code ID.

http://www.myfinancelab.com/register
Please check Blackboard and this website on a weekly basis. As mentioned, the PPT is posted on BB and the practice questions are on MyFinanceLab.

See the last two pages of the syllabus on how to register and access MyFinanceLab.

For the intro and tour ‘MyFinanceLab Student Registration’, please click here.

http://www.myfinancelab.com/tours/student-tours

For help with registration and any technical issues, please call 1-800-677-6337 or browse at http://247.support.pearsoned.com/.

Note that I will NOT deal with any technical issues of MyFinanceLab. You may ask for help from the publisher.

**XVII. Attendance**

I do **not** assign grades for attendance because I believe all of you can study on your own. Nevertheless, if you do not attend the class, it is your responsibility to follow up the materials and what I mentioned in class with your classmates. I teach three sessions of this class in this semester with a total of about 200 students; as such, I may not have time to go over with you individually and repeatedly. It is your responsibility to update information announced in class with your classmates.
XVIII. Tentative Course Outline

<table>
<thead>
<tr>
<th>Topic</th>
<th>Reading Chapters in Gitman and Zutter (2011)</th>
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**Part I – The Basics**

1. The Role of Managerial Finance  
Chapter 1

2. The Financial Market Environment  
*Please review the principles of microeconomics.*  
Chapter 2

3. Financial Statements and Ratio Analysis  
*Please refer your accounting textbook on the definitions of each account in financial statements and their relationship.*  
Chapter 3

Chapter 4

**Part II – Time Value of Money and Valuation of Securities**

5. Time Value of Money  
*Please refer your calculus textbook on the computation of logarithm and exponential. It is important to be familiar with the computation of present value and future value.*  
*No test on excel function*  
Chapter 5

6. Interest Rates & Bond Valuation  
Chapter 6

7. Stock Valuation  
Chapter 7

8. Risk and Return  
Chapter 8

**Part III – Capital Budgeting & Capital Structure**

9. The Cost of Capital  
Chapter 9

10. Capital Budgeting Techniques  
Chapter 10

11. Capital Budgeting Cash flow  
Chapter 11

12. Risk and Refinements in Capital Budgeting  
Chapter 12

**Important**: Solving time value money problems, which constitute a significant component of this course, requires algebraic manipulations. While most of these problems can be solved using preprogrammed functions in financial calculators or spreadsheets such as Excel, it is essential for business students to understand the underlying algebraic methods for solving them.
XIX. Term Project: FIN323

The term project is due in the last class, December 6, 2012 before noon.

NO LATE SUBMISSION ACCEPTED.

Please submit electronic files of (1) Word and (2) Excel of your term project saving in a flash drive or CD through SafeAssign on Blackboard. Do not email them to me. We will NOT return it.

The purpose of the term project is to familiarize you with stock reporting and financial analysis among other things. The project will involve choosing a company you are interested in and following the company’s stock performance over the course of the semester. Your project report must be typed. The intelligent usage of tables, graphs, etc. is highly encouraged (and almost certainly needed for a good paper).

The term project will be done on an individual basis. You need to give me the name and ticker of a publicly-listed company that you would like to analyze by Tuesday, Sept. 11. Your selection of a company to analyze is based on a FCFS basis.

The project consists of two parts. Part one of the project is a stock reporting and a financial statement analysis. Part two of the project is to calculate various risks and return measures.

Each project should turn in a Word and Excel file in accordance with the guidelines required format in the appendix. Your uploaded files should be named as “Last Name_Report” and “Last Name_Spreadsheet.”

PART ONE

Stock Reporting

To familiarize you with stock market reporting, I would like you to follow your stock and a market index for the course of the semester. I would like you to take the closing adjusted price of your stock at least for the past 3 years. As mentioned earlier, there is no time limit. It can be anytime from the past until now. Also check the price of one of the indices that are commonly followed, e.g., the Dow Jones Industrial Average, the S&P 500, the Wilshire 5000, the NASDAQ, and the Russell 2000 – whichever index most closely matches your company’s size (i.e., market value or market cap).

You can find stock price data in the Wall Street Journal. Alternatively, you can obtain the price information via the Internet such as Yahoo! Finance at http://finance.yahoo.com/. Enter the stock prices and index values in an Excel
Fundamental of Finance

At the end of the semester, you will graph your stock and the market index and see how they did.

Financial Statement Analysis

You will use your company to do a financial statement analysis. This means that the company you choose should be primarily operating in one industry (conglomerates are very messy). Also, bank accounting is beyond me, so please do not choose financial institutions. You need to download the financial statements, obtain the date, and calculate all ratios by yourself. Therefore, it is your obligation to check availability of the data needed for analysis. You need to download them and calculate the ratios according to the definitions in the text. After that, you need to compare with industrial average and/or some peer companies. In addition, over-time comparison is necessary. Of course, you have to write down the comments and interpretation of outcomes. The financial statement analysis will involve calculating the ratios we cover for at least three years (five years are better) and comparing them to industry and stock market index average ratios. In your Excel file, you need to show the original data and explain how you generate them. You will be considered as cheating if you fail to justify the sources of data and/or just copy and paste the financial ratios/beta provided by other sources than you. In other words, you need to calculate all output numbers by yourself.

You will do a quantitative and qualitative summary of your firm’s performance. In the qualitative analysis, you need to check trends over time as well as connections between ratios to explain overall performance. Is your firm doing well or poorly? On what basis do you draw that conclusion? Support your conclusion with evidence in the ratios. Indicate how the evidence provided by a certain ratio supports another (e.g., the reason for the low total asset turnover can be traced to a low inventory turnover, which is further supported by the high current ratio).

Many websites contain financial ratios of companies so that you don’t need to do the calculations by yourself. You may want to check out the following websites: http://www.morningstar.com/, http://www.reuters.com/, and http://finance.yahoo.com/.

PART TWO

In this part, you are going to try out some of things you have learned this semester. You have accumulated two series of prices, one for your stock and one for your index.

Stand Alone Risk

Convert your price series into a week-by-week return series by calculating Return_t = [(Price_t − Price_{t-1}) + Dividends_t] / Price_{t-1}. Calculate the mean, standard deviation, variance, and coefficient of variation of returns for your stock and the index using the return data that you have calculated. Also, calculate the correlation between your stock’s return and the index return.
returns and the stock market index’s. **You should use the functions in Excel to do this, and your Excel worksheets should show those functions and equations.**

**Market Risk**

Estimate the beta of your stock by regressing your stock’s returns (as the dependent variable) on the returns to your index (as the independent variable). The beta of a stock is simply the slope coefficient of a regression line (assuming that your stock market index is the market portfolio).

Look up your company’s beta value given in various websites such as Yahoo!Finance.

**Systematic and Unsystematic Risk**

Total risk of a stock (variance of stock returns) can be seen as the sum of systematic and unsystematic risk. That is,

\[
\text{Total risk} = \text{Systematic risk} + \text{Unsystematic risk} = \text{Market risk} + \text{Diversifiable risk}
\]

This equation can also be expressed in a mathematical form as follows:

\[
\sigma^2 \text{ for a stock} = \beta^2 \times (\sigma^2 \text{ of the market portfolio}) + \sigma^2 \text{ of the regression error term}.
\]

Based on this equation, calculate your stock’s market and diversifiable risk. Also, determine the proportion of the total risk that is nondiversifiable (market risk) and diversifiable.

**Estimate the Required Rate of Return on a Stock (or the Cost of Equity)**

1. **The CAPM or SML**

   Estimate the parameters of the CAPM or the SML (see chapter 5). Find an estimate of current risk-free rate based on Treasury bill rates. Since Treasury bills have different maturities, you may select the 3-month T-bill rate (or yield).

   Treasury yields are available in the WSJ as well as many websites like Yahoo!Finance. For market risk premium (not market return), you may use 7.2%.

2. **Constant Growth Dividend Valuation Model**

   Estimate the required rate of return using the constant growth dividend valuation model, \( r_s = (D_1/P_0) + g \).
For g, use analysts’ forecasts of earnings growth for next 5 years (also available in many websites such as Yahoo!Finance).

If your company does not pay a dividend, then required return of the stock = g.

**Analysis:**
Make sure you tell me everything you did, the source of your data, and any assumptions you made.

How does your **beta** compare to the total risk measures you have calculated – variance or standard deviation? What is each statistic measuring? Does your stock appear to have a strong or a weak **correlation** with the market index?

How does your computed beta compare to the reported beta in the websites? Why do you think they differ? Which one do you think is a better estimate of the market risk of your stock?

Does your company appear to have a lot of **company specific (unsystematic or diversifiable) risk** or little? Is it possible for a company to have lots of company specific risk and little market (systematic) risk? Explain.

How do your two estimates of **required returns** compare? Why do they differ? Which one do you feel is the more realistic estimate?

Graph your stock’s return performance and the market index’s on the same graph using Excel. Play around with the graph until it looks good! For an example, see Yahoo!Finance.

**Appendix:**

**Format for a hardcopy of the term project**

**Page 1:** A cover page (5%)

Course name: FIN 323  
Semester: Fall 2012  
Title: Term Project  
Company name  
Name  
RED ID number  
The date you submit the document

**Page 2:** Summary of entire analysis for this project (10%)

**Page 3 ~:** Analysis:
Part one (30%)
  Stock reporting
  Financial statement analysis
    Ratio analysis
    DuPont System of Analysis

Part two (40%)
  Stand alone risk
  Market risk
  Systematic and unsystematic risk
  Required rate of return

Appendix: Supplementary graphs and tables (10%)
  Table 1: financial ratios
  Table 2: weekly stock analysis
  Table 3: regression output
  Graph 1: scatter plot between stock and market returns

Guidelines for the term project

1. No late project is accepted. To make sure that I receive your project, I will e-mail you the receipt. Note: only sending Word or Excel file will be considered incomplete submission.

2. Please abide by the following guidelines when writing your term project.
   
a. This project must be typed using a word processing program. You should use **DOUBLE SPACES**. Use a 12-inch font and 1 inch left, right, top, and bottom page margins.
   
b. Your supplementary tables and graphs should be indexed, e.g., table 1, table 2, etc. In your manuscript, you should refer to a specific table to support your analysis.
   
c. Do not use the format of the PowerPoint slide for this project. You are not required to make a presentation.
# Websites for financial markets and researches

<table>
<thead>
<tr>
<th>Website</th>
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<tbody>
<tr>
<td>CNN Financial News</td>
<td><a href="http://www.cnnfn.com">http://www.cnnfn.com</a></td>
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<tr>
<td>(This Website includes financial ratios and historical data for stocks &amp; indexes.)</td>
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<tr>
<td>New York Stock Exchange</td>
<td><a href="http://www.nyyse.com">http://www.nyyse.com</a></td>
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<td>NSADAQ/AMEX</td>
<td><a href="http://www.nasdaq.com">http://www.nasdaq.com</a></td>
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<td>Chicago Board of Trade</td>
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