Finance 325
INTERMEDIATE FINANCE
Syllabus, Spring 2014

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Section 2: Tu/Th, 12 - 1:50 p.m., EBA-345

Office Hours:  Tuesday, 10:40 - 11:40 a.m.; Thursday, 4-5 p.m.

Course Goal and Objectives

The goal of this course is to help you build an intellectual framework to facilitate your career success as a future financial manager.

Finance 325 is designed to strengthen and extend your knowledge of financial theory and practice. The course takes the viewpoint of the financial manager within the firm. You need to master course material in order to successfully work in finance at a U.S. corporation. However, the course will also assist non-finance majors rise to higher managerial ranks within their firms.

Course objectives include understanding theories of value, risk and return, capital investment decisions, financing decisions, dividend policy, capital structure, financial options, and real options. We also discuss leasing, corporate takeovers, and managerial compensation. You should be able to apply these theories to practical decision-making situations.

BSBA Program Goals
BSBA students will graduate being:
- Effective Communicators
- Critical Thinkers
- Able to Analyze Ethical Problems
- Global in their perspective
- Knowledgeable about the essentials of business

Finance 325 contributes to these goals through its student learning outcomes.

Student Learning Outcomes

Learning outcomes will include the ability to:
- create and interpret financial statements.
- create and interpret cash flow statements.
- determine discount/hurdle rates.
- evaluate investments in working capital and long-term assets.
• demonstrate proficiency in valuation techniques, both DCF (discounted cash flow) and non-DCF.
• apply the contingent claims approach to valuation.

Achieving the Course Objectives

This course integrates material from your previous finance, economics, accounting, statistics and math courses.

To achieve the course objectives, you must read a substantial amount of material, participate actively in classroom discussions, and be prepared to present your homework solutions at the blackboard. You can expect to do so in a friendly, collegial, and supportive atmosphere.

Course Resources

Textbooks

Principles of Corporate Finance by Brealey, Myers, and Allen, eleventh edition, with subscription to the “Connect” homework management system. The text is a course requirement. We rely on it extensively. You need not bring it to class every day. Used textbooks are fine. (Note that if you purchase a new textbook the publisher gives you a discount on the cost to subscribe to Connect.) The international text is fine, but you need to keep track of the question and page numbers, that are different in the international text, when doing homework problems. I do not recommend any digital textbooks as they expire. If you work in finance, you will likely keep this text for many years.

This text is a classic in finance and is the premier text used throughout business schools in the U.S. It is exceedingly well-written. Most chapters are about 20 pages of reading and are easily digestible. We will, however, review the harder parts of each chapter in class. The link to the textbook web page is on Blackboard (“Bb”) at Bb/Textbook.

Note that in Finance 323 you covered the material in chapters 1-9, and 13 to some extent. The material in this book will increase your understanding of those Finance 323 subjects to a much greater depth. Note that we will go through the early chapters (1-9) at lightning speed. If this were your first time through this material, the pace would be too fast for an undergraduate class. However, given your success in Finance 323 you should find much of this material is review.

If you feel uncomfortable with the material from Finance 323 (i.e., you got a grade less than B+), then beware that you may easily become irretrievably lost in this course unless you devote significant effort to the first month. The early concepts in this text reappear throughout the later chapters. Therefore, a fuzzy understanding of the early chapters makes understanding the later chapters brutally hard.

Excel Modeling and Estimation in Corporate Finance by Holden, fourth edition. This is a very useful book that gives you dozens of excel modeling exercises. If you plan on working in
finance, this is a positive-NPV investment. It is optional.

**iClicker2**
You need to purchase an iClicker2 and register it as per class instructions on Blackboard in the Bb/CourseInformation folder. This is a course requirement. You will use the iClicker to respond to in-class questions. Bring your iClicker to each class. You must also use your iClicker to input answers for quizzes and exams.

**Readings**
You will read a majority of the chapters in the book. There is too much material in the text to cover it all in class. So most learning occurs outside the classroom!! You must keep up with the readings. (I want you to actively read the text. This means that your brain is fully engaged, and that you actually write-down any questions you may have as you read.)

You should read *The Wall Street Journal* every day (10 minutes per day, minimum). This is especially important for those of you looking to get a financial job upon graduation.

Numerous supplementary readings will appear on Bb. On occasion, I post multimedia files that you will need to download to view or listen.

**Classroom Time**
We will primarily use our time together to preview upcoming reading material, discuss readings, and reinforce material already covered. Effective use of classroom time absolutely requires that you stay on top of the readings. If you do not, then you are wasting your time taking this class. You will learn most of the material outside of class by doing the reading. Class time will be used to reinforce and discuss outside reading. We must prioritize our use of class time to concentrate on the harder material. Thus you will quickly fall behind if you do not do the reading.

**Assignments**
I typically assign readings and homework problems one-half week in advance. This gives you enough time to read the material and ask questions if you have any trouble reading the assignment or doing the homework.

You will need to use Excel to do some of the assignments. Further, those of you using Excel on the Mac, instead of the pc, may have to use a pc to complete some of the assignments.

**Study Groups**
You must form study groups, preferably three or four people. If you want me to assign you to a group just let me know by email and I will form random groups of 3-4 people. I may ask you to complete a limited number of group assignments. You can learn a lot from your study group colleagues. I encourage you to do homework in groups.

**Office Hours**
Any topic is fine for office hours. Office hours are an important resource; don't be shy to use them. Believe it or not, I actually enjoy talking to students, so please come by. I always hold
office hours at the scheduled times (see page 1). I have taught at SDSU for thirteen years and I have missed my scheduled office hours twice out of six hundred or so times. No appointment is necessary for office hours, just stop by!

**Email**

If you can't make office hours, and/or your study group can't get a grip on an issue, then please email me or call me. If you ask a question that others might find valuable, I will forward it (anonymously) to the class distribution list. If you email me, please include a phone number if I need to call you back. I check email often and typically get back to you within 24 business hours, but usually much quicker than that. You can also always feel free to call my cell phone. I do not use text messaging, so please contact me using email instead of text messages.

If you send me an email, and do not identify yourself by typing your name at the bottom of your email, I simply hit the delete key. Please make sure your email includes your full name, your course number (325) and section.

**Blackboard**

Among other materials, the homepage on Bb has an announcements section that I expect you to check frequently. You need to verify that you have access to the course page on Bb as soon as possible.

Assignments and reading will be posted to Bb/Assignments. I post quiz and exam grades to the gradebook in Bb.

**Internet and Computing**

You need access to the Internet and to a computer that has spreadsheet software.

Bring a calculator to class each day. You don't need to have a financial calculator, but having one does help. Any calculator that can perform simple algebraic calculations, like exponentiation and natural logarithms, will work for quizzes and exams. Outside of your iClicker and calculator, no electronic devices (e.g. cell phone, laptop, blackberry, etc.) are allowed to be used at any time during any class or exam. Turn them off before the start of each class.

**Your Background**

If you don't have the prerequisites (Finance 323 and upper-level standing), then you should not take this course. I expect you, at the start of the course, to be very comfortable with concepts like PV, NPV, IRR, bond pricing, to have a working knowledge of balance sheets and income statements, etc. I will include some of these concepts in quizzes in the early going.

You must be willing to use Excel for this course.
Assessment

How to succeed in this course:
1. Keep up with the reading. Actively read the material. Ask questions as they arise.
2. Actively engage in conversation during class. ASK QUESTIONS!
3. Start homework assignments early. If you are stuck (15 min. rule), then get help.
4. If you keep up with numbers 1-3, then you should have success on the quizzes.
5. Success on quizzes leads to success on the midterm. Success on the quizzes and the midterm leads to success on the final.

Now for the details:

Homework (10%)
You should expect substantial reading and weekly assignments. Contrary to public opinion, assignments benefit the student, not the instructor. Think of homework not as a grading event, but rather an opportunity to organize your thoughts and practice skills you learned. Students who do a good job on homework tend to do well on quizzes and exams.

I call students at random, in general, but I also call on students to go to the board and share their homework results with the class.

Homework assignments are listed on Bb/Assignments. Homework typically includes readings from the text and outside sources as well as electronic homework questions. You will enter all of your homework answers electronically on Connect (required). You will submit approximately 400 homework questions during the semester, approximately 35 per assignment. Your homework grade depends on how many of these questions you correctly answer. Most questions are easy and earn 1 point per question. More involved questions earn more points depending on difficulty level. I add 40 points to your total hw score in Connect (up to the maximum grade) at the end of the semester; i.e. you can miss 40 homework question points during the semester and still get full credit for your homework grade.

During some weeks, I may ask you to submit some of your hw on Bb, in addition to submitting some answers on Connect, depending on the assignment.

Please note that, each semester, some students will be frustrated by computer or other technical difficulties. You need to make a printed and electronic backup of all homework that you complete and bring your printed backups to class, with your printed name on your printed backup. If you have a technical problem submitting an assignment, then you must bring this to my attention prior to the start of class. In particular, do not tempt Bb by submitting your homework close to the deadline as heavy server traffic at that time can lead to loss of your work.

The homework grade is typically very competitive. Your homework grade is more of a measure of persistence and your ability to plan your schedule to avoid last-minute homework submissions.
Project (10%)
You will perform a valuation analysis on a firm of your choice. The details for this project will be discussed sometime after the midterm and will require your understanding of course material through chapter 19. You will present your results as a professionally-crafted written report.

Classroom Grade (15%)
50% of your classroom grade depends on your use of the iClicker response keypads (also known as “clickers.”) 50% of your classroom grade depends on your active participation in class.

The iClicker is required and you need to bring them with you every time. I intend to ask a number of questions throughout each class that require clicker input. The number of questions in a particular class, as well as when they occur in class (at start, in middle, or at the end), is random. Questions asked during the first three classes are for trial purposes only, so you can test the use of your clicker, and will not count towards your classroom grade.

I will drop 10 clicker questions for each student. That means you can forget your iClicker (once, maybe twice, but you better not forget it for a quiz or exam though) and still get full credit. If you lose or damage your iClicker, you will need to purchase another one.

You can find instructions for enrolling your iClicker for this course on Bb/CourseInformation.

50% of your classroom grade depends on you participating in class discussion. After each class, I evaluate each person's significant contributions, both in terms of quality and quantity to that particular class. If you make contributions to class, it will significantly help your classroom grade. If you attend class, but do not participate, you get the same participation credit as though you were absent. Each class is graded independently. At the end of the semester each student will have approximately 25 grades, one for each class.

Participation sharpens an extremely important job skill. You should embrace opportunities to discuss and share your ideas in public among your colleagues. Your future salary depends on it.

Classroom contributions include not just pertinent questions, but also any opinions or comments you have on the material we discuss. You can easily relate classroom discussions to other courses you have taken, to other parts of this course, or to your general experience. I find nearly any contribution of value, provided you share it with the whole class.

Note that, especially when working numerical examples, I occasionally make mistakes or there may be other typos on the blackboard. During these rare (😔) events, you can earn participation credit by correcting any in-class mistake. If a student attempts a correction, but there is in fact no mistake, then no participation credit is lost! I do keep track of this type of contribution and it will help your classroom grade.

Open communication fosters a quality-conscious environment. Don’t ever allow something written on the blackboard (or spoken in class) to confuse you, thinking that you just don’t get it and will worry about it later. It may be wrong. Further, I often receive emails from people
alerting me to mistakes or typos on posted material on Bb or Connect. I find such emails very valuable and collect them. I go through them at the end of the semester and use them to increase your classroom grade.

As a class participant, you should give your undivided attention to whoever is speaking. If you distract either me or the class from the classroom discussion, you will find your classroom grade suffering. My expectations in this regard will be covered in a separate handout, which I expect you to read, sign, and return.

Finally, we will have a number of interactive classroom exercises. Sometimes I will motivate your participation in these exercises by offering class participation credit.

**Quizzes (20%)**

**Course material covered for each quiz/midterm/final can be found at Bb/Assignments.**

Quizzes reinforce readings (both text and supplementary readings), homework problems and class discussions. Anything related to this class may appear on a quiz. Quizzes consist mostly of true-false and multiple-choice questions. However, many of the questions require calculations. Sample quizzes are on Bb/SampleTests. Quizzes cover all material since the prior quiz or midterm (i.e. not intended to be cumulative) and include reading material assigned for the day of the quiz.

I typically give you 25 minutes to finish a quiz. I plan to offer you four quizzes, depending on scheduling. The four quizzes will likely occur on the dates highlighted by a box on the schedule below. I announce quizzes on Bb or in class at least one week in advance. Every quiz starts at the beginning of class. You may not leave and re-enter the room during any quiz, midterm, or final. Make sure you appear on time. Class always continues for the full class period after the quiz is over.

You quiz grade consists of the sum of your top three quiz scores. This typically allows you to discard your lowest grade, and thus will cover all potential sicknesses, family crises, or other extraneous situations that may arise. Many of you will not miss any quizzes and will simply drop your lowest score. But don't plan on taking off a quiz as a vacation day, thinking you won't get sick during the final two weeks of class.

**Midterm (20%)**

Your midterm will occur in class on **Thursday, March 13**. The midterm and final will challenge you much more than the quizzes and will ask you to apply your learning to new situations.

**Handling of graded materials**

It is your responsibility to check your grades on Bb and Connect and to make sure you receive the correct grade. Save all graded material!! If you have an incorrect grade on a quiz or midterm, you have one week after I distribute it to ask for a correction. The interest penalty for waiting more than a week is the maximum of 1 point or 3% of the total grade of the
hw/quiz/midterm per week. If you do not save your homework/quiz/midterm, then there is nothing I can do to change it. If you don’t receive a graded item, then you need to let me know asap.

**Comprehensive final (25% of grade)**
The final is mandatory, and comprehensive with a slight emphasis on material covered after the midterm. The final will occur at the date, time, and place as specified by the SDSU final exam schedule. Time management is critical during quizzes, the midterm, and the final. Everyone in class faces the same time constraints: everyone starts at the same time and everyone must submit their exam at the same time.

All quizzes and exams are closed book. You will need a calculator. There will be no make-up quizzes or exams. I may allow a page of crib notes. That will be determined. All quizzes and exams are graded anonymously.

Here is the final exam schedule:

Section 2  May 15, Thursday  10:30 a.m. - 12:30 p.m.

I grade on a flexible “curve,” or relative basis. The average course grade in this class has been 2.5 and will continue to be so this semester. I structure this course to reward anyone who gets all the work done and who actively participates in class. Please note the following SDSU grading policy “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.” I use plusses and minuses in determining grades.

**Student Responsibilities**

Note that, although homework is graded, I strongly encourage you to thoroughly discuss your homework within your study group. However, when you submit your work you must submit **only those answers** that you can defend. You should be able to "stand behind" any work that you obtain credit for, just like CFOs and the financial statements they must stand behind these days. Do not input any homework answers that you cannot come to the board and explain to the class.

**Academic Dishonesty**
Cheating, especially at this late stage of your academic career, is incredibly stupid. I find such acts personally offensive. Cheating is an affront to your classmates, to SDSU, and its alumni. Someone who cheats is mainly cheating themselves. At some time they will eventually mature and then always feel guilty knowing they received their degree by means of fraud rather than by personal achievement. Second, cheating cheapens the value of your diploma and thus hurts all current and former students. I talk to business people regularly. They know that cheating exists on university campuses and at SDSU in particular. They are not happy about it. This realization reduces the value of a university degree, reduces potential employment for SDSU graduates, and thus places a responsibility on faculty who want to preserve the integrity of an SDSU diploma.
Despite the high risk, a small number of students have cheated in my classes before, about one per year. I had the displeasure of reporting all such incidents to the Center for Student Rights and Responsibilities and students have been suspended as a result. If anyone cheats I will give that person an F in the course. Note that it is my responsibility to report all such incidents, i.e. this is not optional on my part. Finally, if you are ever close to considering the “easy” way out on any graded work, then take a deep breath and think about what it would be like to be suspended or expelled from SDSU. I apologize for burdening you with this statement, but experience demands that I include it. Further, you can take comfort knowing that no one in this class will achieve a grade the “easy” way.

**Punctuality**
If you have a reason to appear consistently late to class, please let me know. If you need to leave class early, I very much appreciate you letting me know in advance.

If you are sick or have a personal situation that prevents you from taking the midterm or the final, then you will need to: 1) contact me as soon as appropriate 2) provide written documentation of the event (which I will verify). I know that if you are sick, or have a family crisis, that this is the last thing you would like to do.

On the other hand, if you can’t make class, or you miss a quiz or homework assignment, then please don’t feel that you must contact me. You have my condolences in advance. I know that all of you are diligent and do your best. But I don’t adjust homework, participation, or quiz scores for even the most valid reasons.

**Policies**
I intend to follow all SDSU and College of Business policies as they stand.
**Intended Schedule (refer to Bb/Assignments for actual course progress)**

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<th>WEEK</th>
<th>TOPIC</th>
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<tr>
<td>1</td>
<td>Jan. 23&lt;br&gt;Ch 1 Introduction to Corporate Finance</td>
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<td>2</td>
<td>Jan. 28&lt;br&gt;Ch 2 How to Calculate Present Values.&lt;br&gt;Jan. 30&lt;br&gt;Ch 3 Valuing Bonds.</td>
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<td>3</td>
<td>Feb. 4, 6&lt;br&gt;Ch 4 The Value of Common Stocks.&lt;br&gt;Ch 5 NPV and Other Investment Criteria</td>
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<td>4</td>
<td>Feb. 11, 13&lt;br&gt;Ch 6 Making Investment Decisions with the NPV Rule&lt;br&gt;Ch 7 Introduction to Risk and Return.</td>
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<td>5</td>
<td>Feb. 18, 20&lt;br&gt;Ch 8 Portfolio Theory and the Capital Asset Pricing Model (CAPM)&lt;br&gt;Ch 9 Risk and the Cost of Capital.</td>
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<td>6</td>
<td>Feb. 25, 27&lt;br&gt;Ch 10 Project Analysis.&lt;br&gt;Ch 12 Agency Problems, Compensation, and Performance Measurement</td>
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<td>7</td>
<td>Mar. 4, 6&lt;br&gt;Ch 13 Efficient Markets and Behavioral Finance&lt;br&gt;Ch 14 Overview of Corporate Financing</td>
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<td>8</td>
<td>Mar. 11, 13&lt;br&gt;Ch 15 How Corporations Issue Securities. <strong>Midterm</strong></td>
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<td>9</td>
<td>Mar. 18, 20&lt;br&gt;Ch 16 Payout Policy. Ch 17 Does Debt Policy Matter?</td>
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<td>11</td>
<td>Apr. 8, 10&lt;br&gt;Ch. 19 (continued). Ch 20 Understanding Options.</td>
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<td>12</td>
<td>Apr. 15, 17&lt;br&gt;Ch 20 Understanding Options. Ch 21 Valuing Options.</td>
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<td>13</td>
<td>Apr. 22, 24&lt;br&gt;Ch 21 (continued). Ch. 22 Real Options.</td>
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<td>Apr. 29, 5/1&lt;br&gt;Ch 23 Credit Risk. Ch 25 Leasing.</td>
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<td>May 6, 8&lt;br&gt;Ch 31 Mergers. Course Summary</td>
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<td>16</td>
<td>May 15&lt;br&gt;Final Exam, 10:30 a.m.-12:30 p.m.</td>
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