

Financial Management II
Finance 617

Fall 2014

College of Business Administration
San Diego State University

Instructor
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Office Hours: Tuesday 17:30 – 18:45, and by appointment

Course Objective
Finance 617 is an intermediate level course, designed to complement BA 665. Together, the two courses provide a complete overview of modern corporate finance, including relevant theory and practical applications.

Student Learning Outcomes
MBA students will graduate with:
- A solid foundation in theoretical concepts and managerial skills needed to lead business organizations.
- The ability to analyze environments in which managers make and implement business decisions.
- The skills to formulate, communicate, and coordinate strategies to solve business problems and pursue opportunities.

Finance 617 (Financial Management II) contributes to these goals through its student learning outcomes. After completing this course, you should be able to:
- Calculate common investment criteria and project cash flows associated with corporate project evaluation.
- Apply measures of cost of capital and financial leverage to form long-term financial policies for business.
- Describe the common factors influencing dividend policy
- Relate capital investment decisions and financial policies to business valuations.
- Describe applications of options in financial management.
- Judge the merits of leasing over borrowing to purchase assets.

Course Prerequisites
Business Administration 665 or equivalent.

Required materials
Principles of Corporate Finance, Brealey/Myers/Allen11th edition, McGraw Hill / Irwin. This text is a course requirement; we rely on it extensively. Used textbooks are fine if you can find them. The international text is also fine, but you need to keep track of the question numbers, which are different in the international text, when doing homework problems. I do not recommend digital textbooks as they expire, are not re-sellable, and are
thus absurdly over-priced. You also need the “Connect” homework management system that comes from McGraw-Hill. Connect is much less expensive when bundled with the purchase of a new textbook.

This text book 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 approximately 20 pages of reading and are easily digestible. We will, however, review the hardest parts of each chapter in class. The link to the textbook web page is on Blackboard (“Bb”) at Bb/Textbook. All reading assignments are listed on Bb.

“Excel Modeling in Corporate Finance,” 4th Edition, Craig Holden. This is an important resource as we will do a lot of work in Excel in this course. This resource is optional.

Course material, including supplemental readings and lecture notes, will be provided on Blackboard, the course management system used by SDSU. In addition to posting material, we will use other features of the system, as needed. To access Blackboard at SDSU, go to http://blackboard.sdsu.edu

Course Activities

**Readings**

The Brealey/Myers/Allen text describes the theory and practice of sound corporate finance activities. The listed reading assignments should be completed prior to class meetings. Solutions to the end-of-chapter questions should be prepared for the following class meeting.

Relevant articles, from various business reporting sources, will be posted on Bb. You should try to read the Wall Street Journal daily, in particular articles in the Money & Investing section, which are a good source of material for class discussion. By the end of this course, you should find that you can quickly comprehend the material in such articles.

**Classroom Time**

Each class typically includes a discussion of recent news in the world of corporate finance and financial markets, including articles assigned for that day. We will primarily use classroom time to review and preview reading material and discuss assigned problems.

We have a number of classes entirely devoted to project analyses. These classes have a different format, described in more detail below.

As always, you should read all assigned material prior to class meetings and be ready to engage in class discussion. My philosophy is that most basic knowledge is acquired outside the classroom, and we should use classroom time to refine, extend, and integrate that knowledge. If you get “stuck” on any reading concept or homework problem, do not hesitate to reach-out for help.

**Email/Office Hours**

Feel free to email me at any time; I check course email frequently and respond timely. If you ask me a question, and I believe it could help others, I may forward (anonymously) to the class distribution list.
Please take advantage of office hours, especially to discuss upcoming assignments. No need to schedule an appointment during office hours, I will always be there.

**Classroom Etiquette**
You may use laptops during class sessions for taking notes and viewing lecture notes. However, refrain from checking email and other activities unrelated to the class discussion. Also, power down cell phones prior to attending class; inadvertent sounds from cell phones are disruptive and distract from the effectiveness of our teaching environment.

**Class Participation**
Every class member is expected to participate in a variety of course activities. Your grade for participation will be based on the quality and quantity of your contributions to classroom discussions.

Class participation is graded (10%--see Assessment section below), which will reflect the quality and quantity of your valuable contributions to class discussions. You may be called at random to discuss reading material and to present your answers to homework problems. I grade everyone’s contribution to each day’s discussion. The weekly grade reflects the value-added by each participant, not the number of words spoken.

Please include your opinions and comments on any relevant classroom discussion. You can easily relate most classroom material to other courses you have taken, to other parts of this course, and/or your general experience. Everyone’s comments are of value, provided you share it with the whole class. This implies that your attention is devoted to those speaking and not on “side conversations”, which inhibits the sharing of your valuable insights with colleagues—please share your observations with the class at large.

Please note that all class discussions are fair ground for quiz, midterm, and final exam questions.

**Homework**
Several homework assignments will be graded, and several will not be graded. Those graded will be judgmentally determined by me, and will be announced by the end of class prior to the assignment being due.

Graded homework will impact your course performance (10%--see Assessment section below). All homework is due at the beginning of class on the due date (i.e., 7:00 pm); please email me your homework, and bring a printed copy with you to class for reference when we discuss selected homework problems.

All homework can be completed using standard spreadsheet (e.g., Excel), work processing (e.g., Word) and internet access.

**Quizzes**
Four in-class quizzes will be administered, depending on scheduling; all will
be in a closed-book and closed-notes format. Such quizzes are graded (15%--see Assessment section below), and will reinforce readings, homework problems, and class discussions. Quizzes can consist of a variety of formats (e.g., true-false, multiple choice, short-answer, problems).

Although tentative, quizzes are planned for those dates highlighted with a box on the schedule below. Quizzes will be announced one week in advance, in class. There are no quiz make-ups, however your lowest quiz score will be dropped, covering all sickness, family crises, and other extraneous circumstances. Thus, only your top three quiz scores will be included in your grade.

Quizzes will typically be administered at the beginning of class; please make sure you arrive on time. Also, class always continues for the full class period after a quiz is over.

**Midterm Examination**

One mid-term examination will be administered, which will be closed-book and graded (20%--see Assessment section below). The format of the midterm examination will include computational questions, theoretical questions, and questions related to assigned readings.

**Simulation Project**

You will need to form teams of three or four students, to compete in a financial management simulation. The project specifications will be discussed in greater detail in class. It is my anticipation that simulation software (“Business Challenge”), provided by Enspire Learning, Inc. of San Antonio, TX, which is expensive to non-students (close to $400), but is discounted for SDSU students at $95 for three weeks of access, including access to the simulation software and video-based “Fluent in Finance” review lessons. Purchase of the software (confirmation provided by Enspire), and thus your ability to engage in the simulation, is a course requirement.

Each team will manage a simulated energy drink company and by doing so will compete against other three-to-four person teams. The purpose of the simulation is to give you practice managing your simulated company in order to maximize the valuation of your firm. You will need skills gained from your management, accounting, marketing, and finance courses in order to win. Each firm starts the simulation with the same assets and market presence. The results of the simulation therefore reflect the dynamic interaction of decisions made among the competing teams.

After the simulation finishes, your team will recap its results during class with a short power-point presentation. You will need to determine the value of your firm during your presentation. Your simulation and team’s performance will be graded (15%--see Assessment section below) based on the market valuation of your firm, the consistency and soundness of its actions, and its ability to adapt to an evolving marketplace.

Each team member must participate (equally, by time) in the group presentation. Each team member will provide anonymous feedback on the
performance of other team members, from which an individual’s group grade may be adjusted.

Final Examination
The comprehensive final examination will cover material from the textbook and lectures, and will consist of problems, short-answer, and essay questions. It will be in a closed-book and closed-notes format. The final examination (30%--see Assessment section below) will be composed of questions from assigned readings, case discussions, group presentations, and class discussions.

Assessment
Course grades will be assigned in accordance with San Diego State University policy (see Graduate Bulletin, pp. 30-32). Your course grade will be based on six components with the following weights:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tr>
<td>Final exam</td>
<td>30%</td>
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<tr>
<td>Quizzes</td>
<td>15%</td>
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<tr>
<td>Homework</td>
<td>10%</td>
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<tr>
<td>Midterm exam</td>
<td>20%</td>
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<tr>
<td>Simulation Project</td>
<td>15%</td>
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<tr>
<td>Participation</td>
<td>10%</td>
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Each grade component will be assigned a letter grade. The course grade will be based on the following distribution of the weighted average of the components.

A (3.80-4.00), A- (3.50-3.79), B+ (3.15-3.49), B (2.85-3.14), B- (2.50-2.84), C (1.85-2.14), C+ (2.15-2.49), C- (1.50-1.84), D+ (1.15-1.49), D (0.85-1.14), F (0.00-0.84).

Cheating and Plagiarism
SDSU defines cheating and plagiarism in the following manner.¹

“Cheating shall be defined as the act of obtaining or attempting to obtain credit for academic work by the use of dishonest, deceptive, or fraudulent means. Examples of cheating include, but are not limited to (a) copying, in part or in whole, from another’s test or other examination; (b) discussing answers or ideas relating to the answers on a test or other examination without the permission of the instructor; (c) obtaining copies of a test, an examination, or other course material without the permission of the instructor; (d) using notes, cheat sheets, or other devices considered inappropriate under the prescribed testing condition; (e) collaborating with another or others in work to be presented without the permission of the instructor; (f) falsifying records, laboratory work, or other course data; (g) submitting work previously presented in another course, if contrary to the rules of the course; (h) altering or interfering with the grading procedures; (i) plagiarizing, as defined; and (j) knowingly and intentionally assisting another student in any of the above.”

¹ San Diego State University Policy File. pp. 18.
“Plagiarism shall be defined as the act of incorporating ideas, words, or specific substance of another, whether purchased, borrowed, or otherwise obtained, and submitting same to the university as one’s own work to fulfill academic requirements without giving credit to the appropriate source. Plagiarism shall include but not be limited to (a) submitting work, either in part or in whole, completed by another; (b) omitting footnotes for ideas, statements, facts, or conclusions that belong to another; (c) omitting quotation marks when quoting directly from another, whether it be a paragraph, sentence, or part thereof; (d) close and lengthy paraphrasing of the writings of another; (e) submitting another person’s artistic works, such as musical compositions, photographs, paintings, drawings, or sculptures; and (f) submitting as one’s own work papers purchased from research companies.”

Policies on sanctions and due process in review of alleged violations are available at: http://newscenter.sdsu.edu/universitysenate/index.aspx The penalty for academic dishonesty in this course is an F grade. Cases of academic dishonesty will be reported to the Center for Student Rights and Responsibilities.
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<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Chapters</th>
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<tr>
<td>August 26</td>
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<td>Chapters 1/2/3</td>
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<td>September 2</td>
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<td>Chapters 4/5</td>
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<td>September 9</td>
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<td>Chapters 6/7</td>
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<td>September 16</td>
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<td>Chapters 8/9</td>
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<td>September 23</td>
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<td>Chapters 10/13</td>
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<td>September 30</td>
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<td>Chapters 14/15</td>
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<td>October 7</td>
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<td>Midterm Examination, Chapter 16</td>
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<td>October 14</td>
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<td>Chapters 17/18</td>
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<td>October 21</td>
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<td>Chapter 19</td>
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<td>October 30</td>
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<td>Financial Management Simulation</td>
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<td>November 4</td>
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<td>Chapter 20/21</td>
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<td>November 11</td>
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<td>Veterans Day – No Class</td>
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<td>November 18</td>
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<td>Chapters 22/23</td>
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<td>November 25</td>
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<td>Simulation Project Presentations</td>
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<td>December 2</td>
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<td>Chapters 24/25</td>
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<td>December 9</td>
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<td>Chapter 31, Review</td>
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<td>December 16</td>
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<td>Final Exam 7 - 9 pm</td>
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* Changes, if any, will be announced in class.