BUS 2339 Section OL49 Financial Management

Prof. A. Zissu

Spring 2020

Class Meets: fully on-line
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Pre-requisites & Co-requisites: MAT 1190 or higher or Eligibility for MAT 1275 or Higher.

YOU MUST ENROLL IN CENGAGE TO TAKE THIS COURSE. GO TO YOUR COURSE IN BLACKBOARD, CLICK ON "CONTENT" AND THEN CLICK ON "MINDTAP REGISTRATION INSTRUCTIONS"

THEN GO TO YOUR BLACKBOARD'S COURSE AND CLICK ON "CONTENT", IT WILL TAKE YOU TO "BUS 2339 OL49 SP 2020**", CLICK ON IT AND THEN CLICK ON THE TAB "LAUNCH" THAT IS AT THE BOTTOM RIGHT SIDE. THIS IS WHERE YOU WILL FIND YOUR PERIODIC GRADED ASSIGNMENTS, WHEN I INFORM YOU THAT I POSTED A NEW ONE.**

This is a fully ONLINE course, it means we never meet in class, all is taught online.

Course Description

This course provides an in-depth analysis of the principles of financial management and their application to decision making in a business firm. Topics include: financial statement analysis, capital budgeting principles and applications, cost of capital, alternative methods of financing business firms, and dividend policy.

Grading
There will be periodical evaluations (Cengage Assignments) worth 80% of the final grade, and homeworks worth 20% of the course grade.

Required Textbook:
Fundamentals of Financial Management, 15th Edition, by Brigham & Houston (a digital version is available on the Cengage website – described below.) Note that you do *not* need to purchase a hard copy of the book, but you MUST enroll in CENGAGE.

SECTION 1 (Week 1)

FINANCE AND THE FINANCIAL MANAGER

OVERVIEW

We explain the role of corporations, financial managers and financial markets in the financial decision making process. The success of any firm in financial management is measured by the increase in the increase in the value of the firm. The financial decisions made by firms are generally geared towards this objective. Generally, there are two types of financial decisions that are made in a corporation: investment decisions and financing decisions. In order to make these decisions a financial manager not only uses input from the corporation, but also from financial markets.

LEARNING OBJECTIVES

- The advantages and disadvantages of organizing a business as a corporation.
- The role of the financial manager in a corporation.
- Functions of financial markets.)
- Principal-agent problems, agency costs and information asymmetries.

SECTION 2 (Week 2)

FINANCIAL MARKETS AND INSTITUTIONS

OVERVIEW

This section introduces modern financial markets and institutions. The concept of risk is introduced here. The importance of financial markets is emphasized.

LEARNING OBJECTIVES

- To understand the types and purposes of financial institutions.
- To understand the role of financial markets in the economy.
- To understand how financial markets are utilized by firms.

SECTION 3 (Week 3)

FINANCIAL STATEMENT ANALYSIS

OVERVIEW

This section studies the tools and techniques for analyzing financial statements for purposes of credit evaluation, forecasting, identifying merger candidates, enhancing the efficiency of decision making and diagnosing problem areas in the firm before crises develop. We learn to use financial ratios to conduct duPont (i.e., decomposition) analysis, a methodology to discover sources of poor performance through interrelationships among a firm's financial ratios.

LEARNING OBJECTIVES

- To understand the data found in financial statements.
- To understand the differing ratios used in the evaluation of financial statements.
- To understand how changes in the structure of the firm effect ratio analysis.

SECTION 4 (Week 4)

PRESENT VALUES, THE OBJECTIVES OF THE FIRM, AND CORPORATE GOVERNANCE

OVERVIEW

This section introduces the concept of present value and shows why a firm should maximize the market value of the stockholders' stake in it. The authors explain the linkage between net present values and well-functioning financial markets using two-date, certain-world framework. The concept of risk is introduced here. The net present value rule and the rate of return rule are explained in great detail.

LEARNING OBJECTIVES

- To understand that the goal of the firm is to maximize the shareholders' wealth.
- To understand the differing views held by executives from various countries on this subject.
- To understand how capital markets reconcile preferences for current vs. future consumption
- To understand the linkage between net present values and well-functioning financial markets.
- To understand the net present value rule and the rate of return rule.
- To understand the concept of the opportunity cost of capital

SECTION 5 (Week 5 & 6)

HOW TO CALCULATE PRESENT VALUES

OVERVIEW

This section describes the mechanics of calculating present values of lump sum amounts, perpetuities, annuities, growing perpetuities, growing annuities and unequal cash flows. Other related topics like simple interest, frequent compounding, continuous compounding, and nominal and effective interest rates are discussed.

LEARNING OBJECTIVES

- To learn how to calculate present value of lump sum cash flows.
- To understand and use the formulas associated with the present value of perpetuities, growing perpetuities, annuities and growing annuities.
- To understand more frequent compounding including continuous compounding.
- To understand the important difference between nominal and effective interest rates.

SECTION 6 (Week 7 & 8)

VALUING BONDS

OVERVIEW

This section shows how present value concepts can be applied to the valuation of bonds. The concept of the term structure of interest rates is explained here. Various theories of the term structure of interest rates are explored. The relationship between real rate and nominal rate of interest is explored. The impact of inflation on the nominal interest rates is discussed.

LEARNING OBJECTIVES

- To learn how to calculate the value of a bond
- To explore the relationship between bond prices and interest rates
- To learn the concept of term structure of interest rates.
- To understand various theories that explains the term structure of interest rates.
- To explore the relationship between real and nominal rate of interest.

SECTION 7 (Week 9)

INTRODUCTION TO RISK, RETURN, AND THE OPPORTUNITY COST OF CAPITAL

OVERVIEW

This section provides a historical overview of return and risk for various securities like stocks, bonds, and T-bills. It lays the foundation for understanding risk and return, which is crucial for financial decision- making. It provides a method for estimating the opportunity cost of capital using historical data. It shows how to calculate the expected return and the standard deviation of returns for a portfolio. Finally, the concept of beta as a measure of risk is introduced in this section.

LEARNING OBJECTIVES

- To be able to explain the concepts of expected return, security risk, diversification, portfolio risk, and beta
- To be able to calculate expected return and variance of return (or standard deviation) for single securities and portfolios
- To be able to calculate the beta of a security or portfolio.
- Diversification and value adding property.

SECTION 8 (Week 10)

RISK AND RETURN

OVERVIEW

This is a very important section as it deals with portfolio theory and the capital asset pricing model. This is a difficult section and students find it hard to understand the concepts fully. The concepts of efficient portfolios and the risk-free asset are explained clearly. It concentrates on the Markowitz portfolio selection model and the capital asset pricing model (CAPM), and builds on the previous section.

LEARNING OBJECTIVES

- To understand the portfolio theory and the related concepts of efficient portfolios, the market portfolio, and the risk-free asset.
- To understand the capital asset pricing model (CAPM), the security market line (SML) and its implications to risk-return tradeoffs.

SECTION 9 (Week 11)

THE VALUE OF COMMON STOCKS

OVERVIEW

This section shows how present value concepts can be applied to the valuation of common stocks. It provides a detailed explanation of the constant dividend growth model. It also explores the relationship between stock price, earnings per share and growth opportunity.

LEARNING OBJECTIVES

- To learn how to calculate the value of a common stock
- To be able to apply the present value formulas and concepts to the valuation of common stocks
- To explore the relationship between common stock prices, earnings and growth opportunities
- To learn the process of estimating the cost of equity

SECTION 10 (Week 12)

CAPITAL BUDGETING AND RISK

OVERVIEW

The authors discuss how modern theories about risk and return, discussed in previous sections, are applied to capital budgeting decisions. The main focus is on the estimation of beta, company and divisional cost of capital, and project cost of capital – including international projects. They show how to estimates the discount rate for risky projects. The authors end the section with a discussion of the certainty equivalent method of calculating the present value of risky cash flows.

LEARNING OBJECTIVES

- To enable the student to estimate company, divisional, and project cost of capital
- To understand and analyze complex projects where the risk of the project changes over the life of the project

SECTION 11 (Week 13)

PROJECT ANALYSIS

OVERVIEW

This section explains sensitivity analysis, break-even analysis, simulation, real options and decision trees as a supplement to the NPV analysis. These analyses, called project analyses, provide additional insights into a capital budgeting project before making the final accept-reject decision. The final decision is always made using the NPV analysis. This section explains the capital investment process generally followed by firms.

LEARNING OBJECTIVES

- To understand the importance of the capital investment process in a firm.
- To enable students to perform sensitivity analysis and break-even analysis.
- To understand the usefulness of decision trees and simulation in project analysis.
- To understand real options analysis of a project.
- To understand that a thorough analysis is essential before accepting or rejecting a project.

SECTION 12 (Week 14)

PAYOUT POLICY

OVERVIEW

This section starts by describing different types of cash payouts by U.S. companies. There are two ways in which a firm can distribute cash to the shareholders—dividend and stock repurchase. The information content in dividends and share repurchases is explained in detail.

LEARNING OBJECTIVES

- To enable the student to explain how companies decide on their dividend payouts and also the mechanism of payouts.
- To understand the mechanisms and implications of share repurchases

Online Reading Materials: See the CENGAGE section of this syllabus for your online textbook.

Online Component Description

1. You need to check your email and your Blackboard several times each week.
2. Material will be posted on Cengage and on Blackboard.

Weekly Participation in Discussions (in Blackboard under "Discussion")
There will be a discussion on a regular base. The discussion will ask you to complete some problems, comment on a topic I select, complete a reading, and/or answer some questions I ask. There will be a deadline for completing the tasks/homework assigned during the semester.

CUNY's Academic Integrity Policy: *Academic dishonesty is prohibited in The City University of New York*. Penalties for academic dishonesty include academic sanctions, such as failing or otherwise reduced grades, and/or disciplinary sanctions, including suspension, or expulsion.
Cheating is the unauthorized use or attempted use of material, information, notes, study aids, devices or communication during an academic exercise.
Plagiarism is the act of presenting another person's ideas, research or writings as your own. The following are some examples of plagiarism, but by no means is it an exhaustive list:
Internet Plagiarism includes submitting downloaded term papers or parts of term papers, paraphrasing or copying information from the internet without citing the source, and "cutting and pasting" from various sources without proper attribution.
For a more detailed explanation, you can find the full Academic Integrity Policy here:
http://www.citytech.cuny.edu/aboutus/docs/policies/CUNY_ACADEMIC_INTEGRITY_6-2011.pdf

College Attendance Policy: A student may be absent without penalty for 10% of the number of scheduled class meetings during the semester as follows:

Class Meets	Allowable Absence(s)
1 time/week	2 classes
2 times/week	3 classes
3 times/week	4 classes

This does not apply to fully online classes.

Excessive Absence:
If a student's class absences exceed the limit established for a given course or component, the instructor will alert the student that a grade of "WU" may be assigned. If a student remains officially registered for a course and never attends that course, a final grade of "*WN" will be assigned. If the student withdraws officially from the course, he/she will be assigned a grade in accordance with the existing withdrawal policy of the College.

Grading Policy: There will be regular CENGAGE Assignments (80%), and homework assignments in Discussion Board (20%)

Grading System:

All grades will be based in proportion to the following scale:

A	=	93 - 100
A-	=	90 - 92.9
B+	=	87 - 89.9
B	=	83 - 86.9
B-	=	80 - 82.9
C+	=	77 - 79.9
C	=	70 - 76.9
D	=	60 - 69.9
F	=	59.9 and below

Qualifications: *If for any reason I believe that it is in the best interest of the class, I reserve the right to amend this syllabus during the course of the term.*