

BA 350: Finance

Fall 2013 Syllabus

Instructor: Daniel Fischmar, 724-946-7162, fischmde@westminster.edu

Office Hours: MWF 2-3

Text:

Stephen Ross, Randolph Westerfield, Bradford Jordan, Essentials of Corporate Finance. 8th edition with McGraw Hill Connect. ISBN: 9780077736538

Online homework located at:

<http://connect.mcgraw-hill.com/class/fischmarfall2013>

Course Outline

Plan

By the end of the course, the student will be able to:

1. Apply the concept of discounted cash flow to valuing a project, an enterprise, a stock, or a bond.
2. Calculate and analyze the return on an investment in the context of capital market history
3. Explain the nature of the historical risks of various investments.
4. Calculate and explain a firm's equity cost of capital, its debt cost, and its overall cost of capital.
5. Discuss the effects of financial leverage, the impact of taxes, and bankruptcy on capital structure choice.

Do

Measurable learning activities associated with each outcome are as follows:

1. Apply the concept of discounted cash flow to valuing a project, an enterprise, a stock, or a bond.
 - a. Online homework, case study and exams that require students to:
 - i) Determine a firm's cash flow from its financial statements
 - ii) Calculate financial ratios
 - iii) Calculate net present value
 - iv) Calculate bond prices and stock prices using discounted cash flows
 - v) Solve problems involving firms deciding whether to invest in a project that involves a new product or production technique
 - vi) Explain the relative advantages and disadvantages of the net present value, internal rate of return, and payback rules.
2. Calculate and analyze the return on an investment in the context of capital market history.
 - a. Online homework, case study and exams that require students to:
 - i) Calculate the range of possible stock and bond market returns based on capital market history
 - ii) Explain the different forms of the efficient market hypothesis and apply it to different potential kinds of information.
3. Explain the nature of the historical risks of various investments.

- a. Online homework, case study and exams that require students to:
 - i) Distinguish total, systematic and unsystematic risk
 - ii) Derive the security market line
 - iii) Deduce the required return from the security market line.
4. Calculate and explain a firm's equity cost of capital, its debt cost, and its overall cost of capital
 - a. Online homework, case study and exams that require students to:
 - i) Determine the equity cost of capital from the security market line
 - ii) Determine the weighted average cost of capital
 - iii) Explain the problems associated with the use of the weighted average cost of capital
5. Discuss the effects of financial leverage, the impact of taxes, and bankruptcy on capital structure choice
 - b. Online homework, case study and exams that require students to:
 - i) Discuss the effect of financial leverage on the value of the firm
 - ii) Analyze the effects of taxes and bankruptcy on the use of debt financing
 - iii) Identify the essentials of the bankruptcy process

Check

Methods for measuring and evaluating learning associated with each learning activity are as follows:

1. Apply the concept of discounted cash flow to valuing a project, an enterprise, a stock, or a bond.
 - a. Can the student calculate net present value, payback, and internal rate of return for a variety of cash flow patterns?
 - b. Can the student apply the concept of net present value to a variety of cash flow problems when presented as small case problems?
 - c. Can the student integrate the net present value concept in the context of a larger case problem that requires extracting and massaging data from public sources?
2. Calculate and analyze the return on an investment in the context of capital market history
 - a. Is the student able to summarize the historical returns for stocks and bonds?
 - b. Can she apply these facts to the normal distribution to find probabilities of different annual returns?
 - c. Can she identify examples of information that is or is not valuable, according to the efficient market hypothesis?
 - d. Can she explain the reasons that the efficient market hypothesis might fail to predict capital market behavior?
3. Explain the nature of the historical risks of various investments
 - a. Can the student classify examples as either systematic or unsystematic risk?
 - b. Can she explain why unsystematic risk is irrelevant when determining the required

return?

- c. Can she justify whether a stock is correctly valued based on the required return as calculated from the security market line.
- d. Can she apply the security market line to a small case problem?
4. Calculate and explain a firm's equity cost of capital, its debt cost, and its overall cost of capital.
 - a. Is the student able to calculate the appropriate weights and required returns for common and preferred equity and debt?
 - b. Can she explain why conglomerates that use a weighted average cost of capital tend to invest in riskier projects?
5. Discuss the effects of financial leverage, the impact of taxes, and bankruptcy on capital structure choice
 - a. Can the student explain why, in the absence of taxes, leverage does not enhance a company's value?
 - b. Can the student calculate the value of the corporate tax shield?
 - c. Can she explain why financial distress costs limits the use of debt in the capital structure?
 - d. Can she outline the both the liquidation and reorganization bankruptcy processes?
 - e. Can she apply the tax shield concept to construct a pro forma balance sheet used to decide whether to engage in debt financing for a new project?

Act

The mix of homework (which includes small case problems, straight forward calculations, and short answers) can be adjusted depending on the amount of remedial work that is required.

Grading Policies

Final Grades are a weighted average of exams and homework. The components of the final grade are weighted as follows:

Three Exams	75%
Homework, Participation, Classroom Demeanor*	25%

***Text messaging and constant chattering during class is both rude and unacceptable. I will deduct at least a partial letter grade (one +,-) from your final grade if you engage in this behavior.**

Assignment of final grades: Based on the average of the above components, grades will be assigned according to the following schedule.

Final Average	Final Grade
93-100	A
90-92	A-
87-89	B+
83-86	B
80-82	B-
77-79	C+
73-76	C
70-72	C-
60-69	D
59 and below	F

Other Course Policies:

Academic integrity: Except for assignments that specifically call for collaboration with classmates, I expect all of your work to be the exclusive product of your own efforts. You may consult with me regarding homework or exams, but you may not collaborate with anyone else. Should you submit any work that is not your own, I will give you a grade of F for the course and report your behavior to the Vice President for Academic Affairs.

Acceptable excuses for missing exams are limited to the following:

 Serious medical condition verified by a doctor's letter.

 Verified, serious family emergency.

I will keep all exams. You may see your exams during class on the day I return them. If you are not in attendance on that day, you cannot see your exam.

Accessibility Statement

Westminster College actively strives for the full inclusion of all our students. Students with disabilities who require access solutions for environmental or curricular barriers should contact Faith Craig, Director of Disability Resources, located in 209 Thompson-Clark Hall. phone: 724-946-7192 e-mail: craigfa@westminster.edu