Course Name: FINC 3320 – Business Finance

Semester/Year of Assessment: Fall Semester - 2012

Assessment Summary: There were eight sections of FINC 3320 taught during the fall semester by a total of six professors. All eight sections were assessed, and a total of 266 students responded to all embedded questions. Assessment consisted of a series of twenty-one (21) multiple choice questions embedded within the examinations given throughout the semester. Questions were developed to test student knowledge relating to eight learning objectives (LOs).

Key Course Objectives Assessed: As stated in the master syllabus for FINC 3320, there are eight course learning objectives:

1. Understand the role of the financial manager – including ethical behavior
2. Understand the basics of financial statements and their analysis
3. Understand the principles of Time Value of Money (TVM)
4. Understand the basics of bond and stock valuation
5. Understand cash flow estimation and apply basic capital budgeting methods
6. Understand the basics of risk and return
7. Understand the basics of corporate financing (capital structure)
8. Understand the basics of international financial management

Embedded Questions: Multiple choice questions asked over the course of the semester specifically tested a student's knowledge of a particular learning objective. Those questions are provided below - along with the specific learning objectives assessed.

1. [LO 1] Corporate finance is the study of how financial managers make which decisions?
    A. investment, financing and hedging
    B. capital budgeting, capital structure and risk management
    C. A and B are both correct
    D. None of the above

2. [LO 1] What is the term given to the mechanisms that align manager interests with those of shareholders?
    A. Agency
    B. Governance
    C. Intermediaries
    D. Underwriting
3. [LO 2] The current ratio is a financial ratio that measures _____.
    A. Profitability
    B. Efficiency
    C. Leverage
    D. Liquidity

4. [LO 2] The breakdown of ROE and ROA into component ratios is known as
   A. Operating Profit Margin
   B. The Du Pont System
   C. The Sustainable Growth Rate
   D. Working Capital

5. [LO 3] _____ dollars represent the purchasing power of your cash.
   A. Nominal
   B. Real
   C. Present
   D. Future

6. [LO 3] You just bought a new computer for $3,000. The payment terms are 2 years same as cash. If you can earn 8.0% on your money, how much should you set aside today in order to make the payment when due in two years?
   A. $2,572
   B. $2,778
   C. $3,000
   D. $3,499

7. [LO 3] Your auto dealer gives you the choice to pay $15,500 cash now, or make three payments: $8,000 now, $4,000 at the end of year 1 and $4,000 at the end of year 2. If your cost of money is 8.0%, what is the PV of the installment plan?
   A. $15,133
   B. $15,500
   C. $16,000
   D. $17.971

8. [LO 3] What is the present value of a $1,000 perpetual cash flow if your required return is 10%?
   A. $909.09
   B. $1,000.00
   C. $10,000.00
   D. $100,000.00

9. [LO 3] What is the present value of a 20 year annuity of $1,000 each year if your required return is 10%?
   A. $1,000.00
   B. $8,513.56
   C. $10,000.00
   D. $100,000.00

10. [LO 4] What is the YTM of a 5.0% semi-annual coupon bond with a $1,000 face value, which matures in 3 years? The market price of the bond is $1,081.95.
    A. 1.08%
    B. 2.15%
    C. 2.16%
    D. 5.00%

11. [LO 4] What is the value of a stock that expects to pay a $3.00 dividend next year, and then increase the dividend at a rate of 8.0% per year, indefinitely? Assume a 12.0% expected return.
   A. $25.00
   B. $69.44
   C. $75.00
   D. $81.00

12. [LO 5] You have the opportunity to purchase an office building for $350,000. You have a tenant lined up that will generate $16,000 per year in cash flows for three years. At the end of three years, you anticipate selling the building for $450,000. Assuming a 7.0% OCC, should you purchase the building?
   A. No, the NPV is negative
   B. Yes, the NPV is $59,323
   C. Yes, the NPV is $409,323
   D. Yes, the NPV is $350,000

13. [LO 5] Which of the following is a pitfall of the Payback Rule?
   A. It gives equal weight to cash flows before the cutoff.
   B. It ignores cash flows after the cutoff.
   C. It biases the firm against long term projects that might be very profitable.
   D. All of the above are pitfalls of the Payback Rule.

14. [LO 5] Which of the following is an accurate and organized way of determining net cash flows for discounted cash flow (DCF) analysis?
   A. Working Capital CFs + CFs From Operations + Salvage Value
   B. CFs from Capital Investment + CFs from Changes in Working Capital + CFs from Operations
   C. CFs from Capital Investment + Working Capital CFs + Salvage Value
   D. Working Capital CFs + CFs From Operations + Sunk Costs

15. [LO 5] What type of project analysis involves altering particular combinations of (multiple) assumptions?
   A. Sensitivity Analysis
   B. Scenario Analysis
   C. Break-Even Analysis
   D. Real Option Analysis

16. [LO 6] Given the following information, determine which beta coefficient for Stock A is consistent with equilibrium: Expected return of Stock A = 11.3%, r_f = 5.0%, r_m = 10.0%
   A. 0.86
   B. 1.26
   C. 1.10
   D. 0.80

17. [LO 6] The most common measure of volatility used in finance is _____. (*Hint: This measure of volatility is defined as the average value of squared deviations from the mean.*)
   A. expected return
   B. variance
   C. correlation
   D. beta

18. [LO 6] Risk that CAN BE eliminated through proper diversification is called
   A. Unsystematic risk
   B. Unique risk
   C. Idiosyncratic risk
   D. All of the above

19. [LO 7] Why is debt financing said to include a tax shield for the company?
   A. Taxes are reduced by the amount of debt.
   B. Taxes are reduced by the amount of interest.
   C. Taxable income is reduced by the amount of the debt.
   D. Taxable income is reduced by the amount of the interest.

20. [LO 7] The theory of capital structure that implies that debt is a signal to the marketplace is
   A. Tradeoff Theory
   B. Pecking Order
   C. Modigliani and Miller (1958)
   D. None of the above

21. [LO 8] Other things equal, and assuming efficient markets, if a Honda Accord costs $18,365 in the U.S., then, at an exchange rate of 1.43 U.S. dollars per British pound (£), the Honda Accord should cost _____ in Great Britain.
   A. £26,262
   B. £18,365
   C. £12,843
   D. £9,183

Results: On average students answered 62.3% of embedded questions correctly. The following analysis breaks down the assessment results by learning objective, professor, and student major.

Fall 2012 Assessment Results for FINC 3320 by Learning Objective

Learning Objective	Questions	Score*
1 - Understand the role of the financial manager	1,2	67.8%
2 - Understand the basics of financial statements and their analysis	3,4	71.9%
3 - Understand the principles of Time Value of Money (TMV)	5,6,7,8,9	67.2%
4 - Understand the basics of bond and stock valuation	10,11	55.1%
5 - Understand cash flow estimation and apply basic capital budgeting methods	12,13,14,15	59.4%
6 - Understand the basics of risk and return	16,17,18	66.7%
7 - Understand the basics of corporate financing (capital structure)	19,20	42.3%
8 - Understand the basics of international financial management	21	62.0%

* Note: Results are provided for an "equally-weighted portfolio" of all questions that test knowledge of a particular learning objective. For questions with more than one associated learning objective, that question was included in the "portfolio" for each of the learning objectives assessed.

Learning objectives 1 (role of financial manager), 2 (financial statements), and 3 (time value of money) were the three most widely understood by students, with correct response rates of 67.8%, 71.9%, and 67.2%, respectively. Of the eight learning objectives, 3 (time value of money) is considered to be the most important. The five questions used to assess knowledge of time value of money involve inflation, valuing a single cash flow, valuing multiple cash flows, valuing a

perpetuity and valuing an annuity.

Learning objective 7 (capital structure), on the other hand, was the least understood, with a correct response rate of only 42.3%. Here, students were given questions that dealt with tradeoff theory and pecking order theory. Students performed slightly better on the questions associated with learning objective 4 (stock and bond valuation). In this case, students correctly answered 55.1% of the questions. This last result is somewhat puzzling given the student's performance on time value of money and the usual ease with which students normally connect time value concepts with bond and stock valuation.

The above results demonstrate that, on average, students learned some of the objectives better than others. However, there was quite a bit of cross-sectional variation to answers on specific questions between the sections. The table below details the performance on each of the 21 questions across each of the six professors assessed.

Fall 2012 Assessment Results for FINC 3320 by Question by Professor (percentages)

Professor	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20	Q21	Overall
Funck	75	51	52	92	62	64	71	34	81	36	62	47	86	42	64	87	87	45	48	12	56	60
Gutierrez	84	86	74	86	78	74	76	52	74	66	92	52	66	62	68	80	94	86	76	44	62	73
Johnson	71	76	71	24	53	74	82	85	91	32	62	44	50	50	35	59	88	9	47	15	74	57
Leavell	85	79	88	94	74	71	66	69	89	50	56	71	74	76	76	54	82	71	77	62	82	74
Maniam	51	39	54	66	27	63	73	54	73	20	34	37	63	34	54	41	56	17	34	9	37	45
Nenninger	86	32	64	93	66	75	50	50	91	52	89	55	70	66	73	82	89	48	34	66	70	67
Total	75	61	67	76	60	70	70	57	83	43	66	51	68	55	62	67	83	46	53	35	64	62

The following table provides results on the proportion of students who answered embedded questions correctly, but parses by both learning objective and by professor.

Fall 2012 Assessment Results for FINC 3320 by Learning Objective by Professor

Professor	Students	Sections	Overall	LO1	LO2	LO3	LO4	LO5	LO6	LO7	LO8
Funck	62	3	59.5%	63.2%	71.8%	61.7%	49.2%	60.8%	73.0%	31.5%	56.3%
Gutierrez	50	1	73.0%	85.0%	80.0%	70.8%	79.0%	62.0%	86.7%	60.0%	62.0%
Johnson	34	1	56.0%	73.5%	47.1%	77.1%	47.1%	44.9%	52.0%	23.5%	73.5%
Leavell	35	1	73.1%	82.4%	91.2%	73.7%	52.9%	74.3%	69.0%	70.0%	82.1%
Maniam	41	1	44.5%	45.1%	59.8%	58.0%	26.8%	47.0%	38.2%	20.7%	36.6%
Nenninger	44	1	66.7%	59.1%	78.4%	66.4%	70.5%	65.9%	72.7%	50.0%	70.5%
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Finally, the last table provides results on the proportion of questions which were answered correctly by learning objective, and across student major. The results indicate that, on average, finance majors (59.8%) did not necessarily perform better on the embedded questions than did non-finance majors.

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           Fall 2012 Assessment Results for FINC 3320 by Learning Objective by Major
  Major  Students Overall    LO1      LO2      LO3      LO4      LO5      LO6      LO7      LO8
  ACCT     56      67.6%    67.9%    73.6%    70.8%    67.0%    65.9%    74.4%    46.4%    77.1%
  BAFI     10      65.7%    70.0%    70.0%    80.0%    55.0%    57.5%    60.0%    45.0%    90.0%
  BIOG      1      81.0%    50.0%   100.0%    80.0%   100.0%    50.0%   100.0%   100.0%   100.0%
  BUAD     81      60.0%    67.3%    65.6%    62.6%    55.7%    57.2%    68.0%    43.8%    54.2%
  CRIJ      1      66.7%    50.0%   100.0%    60.0%    50.0%    75.0%    66.7%    50.0%   100.0%
  ECON      5      44.8%    40.0%    70.0%    56.0%    40.0%    45.0%    33.3%    30.0%    20.0%
  ENTP      1      71.4%   100.0%   100.0%    80.0%    50.0%    50.0%   100.0%    50.0%     0.0%
  FINC     23      59.8%    70.5%    69.6%    70.9%    43.2%    58.0%    56.1%    32.6%    63.6%
  HRMG      9      69.9%    66.7%    77.8%    75.6%    50.0%    72.2%    91.7%    50.0%    37.5%
  INBU     10      65.0%    72.2%    80.0%    57.3%    50.0%    63.9%    79.2%    55.0%    87.5%
  KINE      1      90.5%   100.0%   100.0%    80.0%   100.0%    75.0%   100.0%   100.0%   100.0%
  MATH      1      76.2%    50.0%   100.0%    60.0%   100.0%   100.0%    66.7%    50.0%   100.0%
   MBA      5      60.0%    80.0%    50.0%    84.0%    50.0%    50.0%    53.3%    30.0%    60.0%
  MGIS     17      68.1%    82.4%    85.3%    74.1%    52.9%    60.3%    70.6%    50.0%    64.7%
  MGMT     18      57.9%    66.7%    72.2%    65.6%    44.4%    51.4%    66.7%    27.8%    61.1%
  MKTG     25      54.4%    58.0%    74.0%    60.0%    48.0%    55.2%    50.0%    34.0%    45.8%
   PGA      1      57.1%     0.0%    50.0%    60.0%   100.0%    75.0%    66.7%     0.0%   100.0%
  PHIL      1      52.4%   100.0%   100.0%    80.0%     0.0%    25.0%     0.0%    50.0%   100.0%
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Concluding Remarks: In the fall of 2012, FINC 3320 students were assessed via 21 multiple-choice questions that were embedded into course examinations. Those questions were indicative of the overall course objectives listed in the master syllabus. Results indicate that students grasped 62.3% of the material. On average, Finance majors and Banking and Financial Institutions majors did not perform better than non-finance disciplines. Overall results decreased somewhat from fall 2011 (66.7%) to fall 2012 (62.3%).

Faculty took the following steps to improve student learning and the quality of the assessment program for FINC 3320 in the future:

1) For fall 2013, we reorganized the course learning objectives to streamline them and avoid duplication. It was determined that two of the course learning objectives should actually be included as part of other objectives: learning objective 2 (financial statements) is actually included in objective 5 (capital budgeting), and learning objective 4 (bond and stock valuation) is actually a part of objective 7 (corporate financing). We decided to eliminate learning objective 8 (international financial management) since neither finance majors nor BBA candidates are required to complete a course on this topic in their programs. We also prioritized the objectives based on importance. The new learning objectives for the course in the future – in order of relative importance – are as follows

   1. Understand the principles of Time Value of Money (TVM)
   2. Understand the role of the financial manager – including ethics and corporate governance
   3. Understand cash flow estimation and apply basic capital budgeting methods
   4. Understand the basics of risk and return
   5. Understand the basics of corporate financing

2) For assessment of Finance majors and Banking and Financial Institutions majors, we decided to integrate these objectives with the assessment process for higher skills in the required advance courses. This will either provide additional verification that our students know the material or provide us with additional data on where we need to improve our instruction.