

SAM HOUSTON STATE UNIVERSITY
COLLEGE OF BUSINESS ADMINISTRATION
DEPARTMENT OF GENERAL BUSINESS AND FINANCE
SUMMER 2008

Course Number: Finance 367

Course Title: Business Finance

Instructor: Dr. Hadley Leavell

Office: SHB 210M

Phone: 294-1279

Office Hours: 1430 - 1630 MTWT
or by appointment

Required Text: Fundamentals of Financial Management, Brigham and Houston, Thomson/Southwestern, Concise 5E.

Other Requirements: Access to Internet and Other Research Sources. The **Required Text** is one source, but not the only source of finance information for this course.

Prerequisites: Accounting 232 and Math 199, Junior Standing

Course Description:

A study is made of financial principles as applied to management of funds, capital budgeting, sources of funds, techniques of financial analysis, cost of capital, financial leverage, capital structure, forecasting financial needs, management of working capital, financial policies, analysis and regulation of security issues, and international finance.

Course Objective:

At the end of the course the student will know fundamental principles, generalizations, or theories; learn to apply course material; and gain factual knowledge.

Attendance:

Attending class lectures is vital to understanding, integrating, and applying the concepts discussed in class. There will also be material discussed in class that is not in the text; all class discussions are test material. University policy requires class attendance and attendance will be checked.

Homework:

Homework is given at the end of the syllabus as **Required Reading, End of Chapter Questions and Problems**. You are responsible for the reading, answering questions and working problems. The homework will not be turned in, however, it is testable material and you can expect test questions from this material.

Exams:

There will be five semester exams; each exam having a point value of 100.

There will be no make up exams. If one or more exams are missed, the student will take a comprehensive final exam that will be substituted for the missed exam[s].

Reading:

The nature of the course necessitates that chapters from the text and other assigned materials be read before coming to class. Discussions will be presented with the assumption that materials have been read and studied by each student. There are topics and terms which are purely descriptive and will be discussed in class only to the extent that class members have questions.

Grades:

Grades will be based on the following weights:

Five Semester Exams	<u>500</u>
	500 points

Grades in this course are determined by applying the following scale:

450.00 - 500.00	= A
400.00 - 449.99	= B
350.00 - 399.99	= C
300.00 - 349.99	= D
0.00 - 299.99	= F

The final grade is determined by **TOTAL POINTS** and **NOT percentages**.

<http://www.shsu.edu/syllabus/>

Academic Dishonesty: Students are expected to maintain honesty and integrity in the academic experiences both in and out of the classroom. *See Student Syllabus Guidelines.*

Classroom Rules of Conduct: Students are expected to assist in maintaining a classroom environment that is conducive to learning. Students are to treat faculty and students with respect. Students are to turn off all cell phones while in the classroom. Under no circumstances are cell phones or any electronic devices to be used or seen during times of examination. Students may tape record lectures provided they do not disturb other students in the process.

Student Absences on Religious Holy Days: Students are allowed to miss class and other required activities, including examinations, for the observance of a religious holy day, including travel for that purpose. Students remain responsible for all work. *See Student Syllabus Guidelines.*

Students with Disabilities Policy: It is the policy of Sam Houston State University that individuals otherwise qualified shall not be excluded, solely by reason of their disability, from participation in any academic program of the university. Further, they shall not be denied the benefits of these programs nor shall they be subjected to discrimination. Students with disabilities that might affect their academic performance should visit with the Office of Services for Students with Disabilities located in the Counseling Center. *See Student Syllabus Guidelines.*

Visitors in the Classroom: Only registered students may attend class. Exceptions can be made on a case-by-case basis by the professor. In all cases, visitors must not present a disruption to the class by their attendance. Students wishing to audit a class must apply to do so through the Registrar's Office.

The following information is available at the website listed above.

ACADEMIC DISHONESTY:

All students are expected to engage in all academic pursuits in a manner that is above reproach. Students are expected to maintain honesty and integrity in the academic experiences both in and out of the classroom. Any student found guilty of dishonesty in any phase of academic work will be subject to disciplinary action. The University and its official representatives may initiate disciplinary proceedings against a student accused of any form of academic dishonesty including, but not limited to, cheating on an examination or other academic work which is to be submitted, plagiarism, collusion and the abuse of resource materials. For a complete listing of the university policy, see:

<http://www.shsu.edu/administrative/faculty/sectionb.html#dishonesty>

STUDENT ABSENCES ON RELIGIOUS HOLY DAYS POLICY:

Section 51.911(b) of the Texas Education Code requires that an institution of higher education excuse a student from attending classes or other required activities, including examinations, for the observance of a religious holy day, including travel for that purpose. Section 51.911 (a) (2) defines a religious holy day as: “a holy day observed by a religion whose places of worship are exempt from property taxation under Section 11.20...” A student whose absence is excused under this subsection may not be penalized for that absence and shall be allowed to take an examination or complete an assignment from which the student is excused within a reasonable time after the absence.

University policy 861001 provides the procedures to be followed by the student and instructor. A student desiring to absent himself/herself from a scheduled class in order to observe (a) religious holy day(s) shall present to each instructor involved a written statement concerning the religious holy day(s). The instructor will complete a form notifying the student of a reasonable timeframe in which the missed assignments and/or examinations are to be completed. For a complete listing of the university policy, see:

http://www.shsu.edu/~vaf_www/aps/documents/861001.pdf

STUDENTS WITH DISABILITIES POLICY:

It is the policy of Sam Houston State University that individuals otherwise qualified shall not be excluded, solely by reason of their disability, from participation in any academic program of the University. Further, they shall not be denied the benefits of these programs nor shall they be subjected to discrimination. Students with disabilities that might affect their academic performance are expected to visit with the Office of Services for Students with Disabilities located in the Counseling Center. They should then make arrangements with their individual instructors so that appropriate strategies can be considered and helpful procedures can be developed to ensure that participation and achievement opportunities are not impaired.

SHSU adheres to all applicable federal, state, and local laws, regulations, and guidelines with respect to providing reasonable accommodations for students with disabilities. If you have a disability that may affect adversely your work in this class, then I encourage you to register with the SHSU Counseling Center and to talk with me about how I can best help you. All disclosures of disabilities will be kept strictly confidential. NOTE: No accommodation can be made until you register with the Counseling Center. For a complete listing of the University policy, see:

http://www.shsu.edu/~vaf_www/aps/811006.html

VISITORS IN THE CLASSROOM:

Only registered students may attend class. Exceptions can be made on a case-by-case basis by the professor. In all cases, visitors must not present a disruption to the class by their attendance. Students wishing to audit a class must apply to do so through the Registrar's Office.

Required Reading, End of Chapter Questions and Problems

Your required reading pages (noted with an asterias) for chapters that will be covered this semester. The other chapters will be covered as time allows. The required End Of Chapter Study Questions and Problems follow the required reading pages.

***Chapter 1: An Overview of Financial Management**

<u>Pages</u>	<u>Title</u>
4 - 5	Forms Of Business Organizations
6 - 7	Stock Prices and Shareholder Value
8 - 11	Intrinsic Values, Stock Prices, and Compensation Plans
11 - 12	Some Important Trends
12 - 15	Business Ethics
16 - 17	Conflicts Between Managers and Stockholders

End Of Chapter Study Questions

19	Self Test: ST-1 a, b, c, e, f
19) 20	Questions 1-1; 1- 2; 1-3; 1-5; 1-6; 1-10; 1 -12

Chapter 2: Will be covered later

***Chapter 3: Financial Statements, Cash Flow and Taxes**

65 - 66	A Brief History of Accounting and Financial Statements
66 - 67	Financial Statements and Reports
68 - 72	The Balance Sheet
72 - 74	The Income Statement
75	Net Cash Flow
79 - 81	Uses and Limitations of Financial Statements
84 - 85	Free Cash Flow
89	Tying It All Together

End Of Chapter Study Questions

90	Self Test: ST-1 a, b, c, d, g
90-91	Questions: 3-2; 3-3; 3-4; 3-5; 3-7; 3-10

***Chapter 4: Analysis of Financial Statements**

102 - 103	Ratio Analysis
103 - 104	Liquidity Ratios
104 - 107	Asset Management Ratios
108 - 112	Debt Management Ratios
112 - 115	Profitability Ratios
118	Trend Analysis
121 - 124	Comparative Ratios And "Benchmarking"
124 - 125	Uses And Limitations Of Ratios
128	Looking Beyond The Numbers
129	Tying It All Together

End Of Chapter Study Questions And Problems

129	Self Test: ST-1 a, b, c, d, f, h
130	Questions: 4-1; 4-2; 4-3; 4-5; 4-6
139	Table IC4 - 3 Ratio Analysis (Good and Bad)

***Chapter 5: Financial Markets and Institutions**

143 - 144	An Overview of the Capital Allocation Process
145 - 147	The Financial Markets
148 - 153	Financial Institutions
153 - 157	The Stock Market
157 - 160	The Market For Common Stock
160 - 162	Stock Markets and Returns
163 - 167	Stock Market Efficiency
169	Tying It All Together

End Of Chapter Study Questions

167	Self Test: ST-1 a, b, c, d, e, f, g, h, i, j, k
170	Questions: 5-1; 5-3; 5-4; 5-5; 5-6

***Chapter 6: Interest Rates**

175 - 176	The Cost of Money
177 - 189	Interest Rate Levels
180 - 187	The Determinants of Market Interest Rates
187 - 189	The Term Structure of Interest Rates
189 - 193	What Determines the Shape of the Yield Curve
193 - 195	Using the Yield Curve to Estimate Future Interest Rates
196 - 199	Other Factors That Influence Interest Rate Levels
201	Tying It All Together

End Of Chapter Study Questions

201	Self Test: ST-1 a, b, c, d, e, f, g, h, j
202	Questions: 6-1; 6-2; 6-3; 6-9

***Chapter 2: Time Value of Money**

25 - 26	Time Lines
26 - 31	Future Value
31 - 34	Present Value
34 - 35	Finding the Interest Rate, i
35	Finding the Number of Years, n
35 - 36	Annuities
36 - 38	Future Value Of An Ordinary Annuity
38 - 39	Future Value Of An Annuity Due
39 - 40	Present Value Of An Ordinary Annuity
40 - 42	Finding Annuity Payments, Periods, and Interest Rates
42 - 44	Perpetuities
44 - 46	Uneven Cash Flows
46 - 47	Future Value Of An Uneven Flow Stream
48 - 50	Semiannual And Other Compounding Periods
50 - 51	Comparison Of Different Types Of Interest Rates
52 - 54	Amortized Loans
54	Tying It All Together

End Of Chapter Study Questions And Problems

54 - 55	Self Test: ST-1 a, c, d, e, f, g, h, I, j, k; ST-2; ST-3
55 - 56	Questions: 2-1; 2-2; 2-3; 2-4; 2-5; 2-7; 2-8
56 - 57	Problems I:2-1; 2-2; 2-3; 2-4; 2-9; 2-10; 2-11
56 - 60	Problems II:2-7; 2-8; 2-16; 2-18; 2-19; 2-20; 2-21; 2-31; 2-34; 2-37; 2-39

***Chapter 7: Bonds and Their Valuation**

208 - 209	Who Issues Bonds?
209 - 213	Key Characteristics Of Bonds
213 - 216	Bond Valuation
216 - 218	Bond Yields
218 - 222	Changes In Bond Values Over Time
222 - 223	Bonds With Semiannual Coupons
223 - 227	Assessing The Riskiness Of A Bond
227 - 234	Default Risk
237	Tying It All Together

End Of Chapter Study Questions And Problems

237	Self Test: ST-1 a, b, c, e, f, g, h, I; j; k; l; ST-2 b
238) 239	Questions: 7-1; 7-2; 7-3; 7-4; 7-5; 7-7; 7-8;
239	Problems: 7-1; 7-3

***Chapter 8: Risk And Rates Of Return**

246 - 257	Stand-Alone Risk
257 - 271	Risk In A Portfolio Context
271 - 277	The Relationship Between Risk And Rates Of Return
280	Tying It All Together

End Of Chapter Study Questions

280	ST-1: a, b, d, e, f, g, h, i, j, k, l
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***Chapter 9: Stocks And Their Valuation**

290 - 292	Legal Rights And Privileges Of Common Stock Holders
292	Types Of Common Stock
292 - 295	Common Stock Valuation
296 - 298	Constant Growth Stocks
299 - 300	Expected Rate Of Return On A Constant Growth Stock
305 - 310	Valuing The Entire Corporation
310 - 313	Stock Market Equilibrium
315	Preferred Stock
316 - 317	Tying It All Together

End Of Chapter Study Questions And Problems

317	Self Test: ST-1 a, b, d, e, f, h, i, m; ST-3
318	Questions: 9-1; 9-4; 9-5
318	Problems: 9-2; 9-3;

***Chapter 10: The Cost of Capital**

329 - 330	An Overview Of The Weighted Average Cost Of Capital
331 - 332	Basic Definitions
332 - 333	Cost Of Debt
333 - 334	Cost Of Preferred Stock
335 - 339	Cost Of Retained Earnings
340 - 343	Cost Of New Common Stock
343 - 344	Composite, or Weighted Average, Cost Of Capital
349	Tying It All Together

End Of Chapter Study Questions And Problems

349	Self Test: ST-1 a, b, c, d, e, f, g;
351	Questions: 10-2; 10-3

***Chapter 11: The Basics of Capital Budgeting**

- 359 - 360 Project Classifications
- 360 - 362 The Net Present Value (NPV) Criterion
- 363 - 364 Internal Rate of Return (IRR)
- 364 - 369 Comparison Of The NPV And IRR Methods
- 369 - 371 Multiple IRRs
- 373 - 375 Payback Period
- 379 Tying It All Together

End Of Chapter Study Questions And Problems

- 380 Self Test: ST-1 a, b, c, d, e, f, i; ST-2 a, b, c
- 380 - 381 Questions 11-1; 11-3; 11-4; 11-6
- 381 - 383 Problems 11-1; 11-4; 11-6 a.; 11-10; 11-14 a & c; 11-17 a;

***Chapter 12: Cash Flow Estimation**

- 388 - 390 Background On A Project
- 390 - 394 Project Analysis
- 394 - 397 Other Points On Cash Flow Analysis
- 406 - 407 Optimal Capital Budget
- 408 Tying It All Together

End Of Chapter Study Questions And Problems

- 409 Self Test: ST-1 a, b, c, i, j; ST-2 a, b, c, d, e, f
- 410 Questions: 12-1; 12-2; 13-3; 12-4; 12-6; 12-14
- 411 - 412 Problems: 12-1; 12-2; 12-3; 12-4; 12-6; 12-7

Chapter 13: Capital Structure and Leverage

- 423 - 424 The Target Capital Structure
- 424 - 436 Business And Financial Risk
- 452 Tying It All Together

End Of Chapter Study Questions

- 453 Self Test: ST-1 a, b, c
- 453 - 454 Questions: 13-1; 13-3; 13-6

Chapter 14: Distributions to Shareholders: Dividends And Share Repurchases

- 465 - 467 Dividends Versus Capital Gains: What Do Investors Prefer?
- 468 - 469 Other Dividend Policy Issues
- 479 - 480 Dividend Reinvestment Plans
- 480 - 481 Summary Of Factors Influencing Dividend Policy
- 481 - 484 Stock Dividends And Stock Splits
- 484 - 488 Stock Repurchases
- 488 Tying It All Together

End Of Chapter Study Questions

- 489 Self Test: ST-1 a, c, f, h, g, h, i
- 489 Questions: 14-2

***Chapter 15: Working Capital Management**

499	Working Capital Terminology
499 - 503	Cash Conversion Cycle
504 - 507	Alternative Current Asset Financing Policies
507 - 511	The Cash Budget
520 - 523	Accounts Payable (Trade Credit)
523 - 527	Short-Term Bank Loans
527 - 528	Commercial Paper
528 - 529	Use Of Security In Short-Term Financing
529	Tying It All Together

End Of Chapter Study Questions And Problems

530	Self Test: ST-1 a, b, c, d, e, f, k, l, m, n, p, q
531	Questions: 15-2; 15-3; 15-4; 15-7; 15-8; 15-9
531 - 533	Problems: 15-3; 15-10

***Chapter 16: Financial Planning and Forecasting**

539 - 541	Strategic Planning
541 - 542	Sales Forecasts
542 - 545	The AFN Equation
553	Tying It All Together

End Of Chapter Study Questions

553	Self Test: ST-1 a, b, d
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***Chapter 17: Multinational Financial Management**

563 - 566	Multinational Or Global Corporations
566 - 568	Multinational Versus Domestic Financial Management
568 - 570	The International Monetary System
570 - 573	Foreign Exchange Rate Quotations
573 - 574	Trading In Foreign Exchange
574 - 576	Interest Rate Parity
576 - 577	Purchasing Power Parity
577 - 580	Inflation, Interest Rates, and Exchange Rates
581 - 583	International Money And Capital Markets
589	Tying It All Together

End Of Chapter Study Questions

590	Self Test: ST-1 a, b, c, d, e, f, g, h, j, k, l, m, n, o, p, q
590	Questions: 17-1; 17-2; 17-3; 17-5; 17-6; 17-7