

SAM HOUSTON STATE UNIVERSITY
COLLEGE OF BUSINESS ADMINISTRATION
DEPARTMENT OF GENERAL BUSINESS AND FINANCE
FALL 2007

Course Number: Finance 367

Course Title: Business Finance

Instructor: Dr. Hadley Leavell

Office: SHB 210M

Phone: 294-1279

Office Hours: 0830 - 0930 TWT
1530 - 1630 MTWT
or by appointment

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

Financial Calculator: A financial calculator of your choice with capability of computing PV, FV, PMT, I and T.

Other Requirements: Access to Internet and Other Research Sources. 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:

Essentials Objectives:

1. Learning fundamental principles, generalizations, or theories.
2. Learning to apply course material.

Important Objectives:

1. Gaining factual knowledge.

Sub-Objectives:

1. Demonstrate an understanding of the function of and development of the managerial finance function.
2. Demonstrate an understanding of and an ability to determine the present value and future value of cash flows.
3. Demonstrate an understanding of and an ability to analyze risk in the financial areas of the firm and its assets, including the areas of expected value, standard deviation, and coefficient of variation.
4. Demonstrate the understanding of and an ability to analyze risk in a market context, including the efficient market hypothesis, Capital Asset Pricing Model [CAPM], the Capital Market Line [CML], the Securities Market Line [SML], the characteristic line, Beta, portfolio risk and return, and expected return.

5. Demonstrate an understanding of and an ability to apply valuation models to bonds, preferred stock, and common stock. This would include being able to determine theoretical values and appropriate yields.
6. Demonstrate an understanding of short-term financial planning including the concepts of working capital management, cash management, credit management, and inventory management.
7. Demonstrate an understanding of and an ability to determine the cost of capital for a firm including both historical cost of capital and marginal cost of capital on each of the components of capital structure - debt, preferred stock, and common equity [including retained earnings and new common stock] using the dividend model and the CAPM approach.
8. Demonstrate an understanding of and an ability to apply the various tools of capital budgeting including the payback period and the Discounted Cash Flow [DCF] tools of Net Present Value [NPV], Internal Rate of Return [IRR], and Profitability Index [PI] to the evaluation of a firm's capital project alternatives.
9. Demonstrate an understanding of and an ability to determine the cash flows used in the evaluation of capital projects.
10.
 - a. Demonstrate an understanding of business risk, including operating leverage and financial risk [including financial leverage - the utilization of debt for financial assets] and current theory of capital structure with emphasis on theoreticians such as Miller and Modigliani.
 - b. Demonstrate an ability to apply more practical tools to the determination of appropriate or target capital structure for a firm.
11. Demonstrate an understanding of dividend theory as it applies to the determination of an appropriate dividend policy of the firm so that the value of the firm might be maximized.
12. Demonstrate an understanding of and an ability to calculate and analyze financial statements using financial ratios, cash flow statements, and industry averages.
13. Demonstrate an understanding of multinational finance.

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.

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.

Assignments:

Assignments (exams, homework, etc.) must be handed in at the beginning of the class that the assignment is due and before roll is called. Late assignments will not be graded. Late means not handed in before the roll is taken. When you enter class, put your assignment on the table.

Homework:

You will have homework worth 100 points toward your grade. Each homework will be worth 5 POINTS. There will be 22 homework assignments; the highest 20 homework grades will be counted.

Exams:

There will be six in-class semester exams and a comprehensive final; each exam will have a point value of 67 POINTS. You may drop the lowest exam score; thus, the best six exams will count toward your grade.

There will be no make up exams. If more than one [1] exam is missed, the final exam will be substituted for the missed exam[s].

Grades:

Grades will be based on the following weights:

Homework	100
Six In-Class Semester Exams (highest) and Take Home	<u>400</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.

STUDENT RESPONSIBILITIES:

The student agrees that by being enrolled in this class to abide by all of the syllabus contents and requirements. Before each class, the appropriate material will be read, questions answered and problems attempted to best effort in accordance with **Required Reading, End of Chapter Questions and Problems**. The student will also study for each exam as necessary to receive a maximum passing grade.

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

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 for chapters that will be covered this semester. The required End Of Chapter Study Questions and Problems follow the required reading pages.

*****EXAM I - Chapters 1, 3 and 4

*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 And Problems

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

*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 And Problems

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)

*****Exam II - Chapters 6 and 2

***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 And Problems

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

*****EXAM III - Chapters 7, 8, and 9

***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 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

*****EXAM IV - Chapters 11 and 12

***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, d, 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

*****EXAM V - Chapters 15 and 16

***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 And Problems

553	Self Test: ST-1 a, b, d, e, f
553	Questions: 16-1

*****Exam VI - Chapters 5, 8 and 17

***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 And Problems

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 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 And Problems

280	ST-1: a, b, d, e, f, g, h, i, j, k, l
-----	---------------------------------------

***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 And Problems

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