

# FINA 6303 Financial Management

Fall Semester 2001

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<b>Office Hours:</b>	T/TH 1:00-2:00 p.m.	<b>Class Time:</b>	T 3:00-5:50 p.m. 280 CB

## A. Course Overview and Objectives

This course examines topics in corporate finance and investments. Our primary focus will be on corporate investment and financing decisions. Since the goal of these decisions is to maximize firm value, an important component of the course is to understand how firm value is determined. This involves a sound understanding of the risk-return relationship in portfolio decisions, the valuation of financial securities in the market, and capital market efficiency. With this framework as a backdrop, we will examine corporate investment criteria and cash flow estimation, cost of capital and project risk, and capital structure decisions. Students pursuing a concentration in finance should view this course as a foundation for future studies and work in corporate finance, financial markets, or financial institutions. Students who do not pursue a career in a finance-related area will gain an understanding of the responsibilities and concerns of corporate financial managers.

## B. Course Materials

1. **Required Textbook:** Brealey, Richard and Stewart Myers (BM), *Principles of Corporate Finance*, Irwin/McGraw-Hill, Sixth Edition, 2000.
2. **Optional Textbook Resource:** *Study Guide* to accompany BM. The study guide may be purchased at the SMU bookstore.
3. **Optional Textbook Resource:** *Solutions Manual* for practice questions and challenge questions at the end of each chapter in BM. The solutions manual may be purchased at the SMU bookstore.
4. **Class Lecture Notes and Answers to Required BM Practice Questions:** You can purchase my class lecture notes and my answers to the required Brealey and Myers practice questions from Alphagraphics at 3032 Mockingbird lane.
5. **Calculator:** You will need a financial calculator a couple of times during the course. Otherwise, any calculator with a memory function and  $y^x$ ,  $1/x$ ,  $e^x$  and  $\ln$  buttons will be sufficient.
6. **Suggested Supplemental Reading:** *Wall Street Journal* and *Barron's*.

## C. Practice Problems

1. **Required.** The attached course outline contains assigned problems (called "Practice Questions") from the textbook. These problems will not be collected. However, they

will help prepare you for the exams. My detailed answers to all assigned practice questions are in the course packet. You will discover that some of the questions are easy, but some are quite difficult. On a more difficult question (you'll know), do not hesitate to study my answer before attempting to answer the question by yourself.

2. **Required.** Each class lecture note in the course packet concludes with a list of old exam questions and answers. These questions focus on the key concepts in my class lecture notes and the textbook, and working through these questions should be an integral part of your exam preparation.
3. **Optional.** There are quiz questions at the end of each chapter. The answers to these questions are in the back of the textbook. Time permitting, it may be a good idea to work through these questions after you have read the chapter to cement basic concepts.
4. **Optional.** For each chapter, the *Study Guide* contains examples, exercises and solutions, and a complete chapter summary. The *Study Guide* can be purchased at the SMU bookstore.

#### D. Exams and Grading

There will be two *non-cumulative* exams that will cover class lectures, required practice problems, and textbook reading assignments. You will be allowed to bring one 8.5" x 11" sheet of paper with notes and formulas on both sides. The paper must be handwritten, not photocopied, and must be handed in along with the exam. Exams are scheduled well in advance so that you can plan around these dates. Please do not ask to be excused from exams for matters of personal convenience. An unexpected absence without supporting documentation will result in a grade of zero.

The two exams will count for 100 percent of your grade. The higher exam score will be given greater weight. The weighting scheme is as follows:

$$[(0.60)(\text{Exam 1}) + (0.40)(\text{Exam 2})] \quad \text{if Exam 1 grade is greater than Exam 2 grade}$$

$$[(0.40)(\text{Exam 1}) + (0.60)(\text{Exam 2})] \quad \text{if Exam 2 grade is greater than Exam 1 grade}$$

#### E. Getting the Most Out of Class Time

The attached course outline (and the subsequent list of required practice questions) provides the reading assignment for each class. You should read the assigned chapter(s) in the textbook *prior* to class. (You might also want to skim through the corresponding class lecture note(s) to get an idea of how we plan to progress through the material during class.) You can work on the required practice questions and end of lecture note old exam questions at any time, but it is probably most efficient to do these problems *after* I cover the material in class.

## Course Outline

Dates	Topics	Reading Assignment	Class Lecture Note
Week 1 (Aug 28)	Introduction to Corporate Finance and Time Value of Money Concepts	Chapters 1, 2 and 3	Lecture Notes 1 and 2
Week 2 (Sep 4)	Time Value of Money and Bond Valuation	Chapter 3	Lecture Note 2
Week 3 (Sep 11)	Stock Valuation	Chapter 4	Lecture Note 3
Week 4 (Sep 18)	Capital Budgeting -- Investment Criteria and Cash Flow Estimation	Chapters 5 and 6	Lecture Notes 4 and 5
Week 5 (Sep 25)	Capital Budgeting Complications	Chapter 6	Lecture Note 5
Week 6 (Oct 2)	Risk and Return	Chapters 7 and 8	Lecture Note 6
Week 7 (Oct 9)	<b>MIDTERM EXAM</b>		
Week 8 (Oct 16)	Cost of Capital and Project Risk	Chapter 9	Lecture Note 7
Week 9 (Oct 23)	Market Efficiency and Long-Term Financing Decisions	Chapters 13 and 14	Lecture Note 8
Week 10 (Oct 30)	Long-Term Financing Decisions (continued)	Chapters 14 and 15	Lecture Note 8
Week 11 (Nov 6)	The Capital Structure Decision	Chapters 17 and 18	Lecture Note 9
Week 12 (Nov 13)	Firm Valuation	Chapter 19	Lecture Note 10
Week 13 (Nov 20)	Options	Chapter 20	Lecture Note 11
Week 14 (Nov 27)	<b>FINAL EXAM</b>		

## Required Practice Questions

<b>Chapter</b>	<b>Brealey and Myers “Practice Questions”</b>
Ch. 3	5, 7, 8, 10, 11, 12, 15, 16 (a, b), 20, 24, 25, 26, 31, 32
Ch. 4	5, 6, 7, 8, 9, 17, 18
Ch. 5	1, 5, 7, 8, 12, 13
Ch. 6	1, 5, 6, 8, 10, 14, 15, 16, 18
Ch. 7	1, 6, 8, 11, 14, 15
Ch. 8	1, 3, 4, 5, 7, 8
Ch. 9	4, 7, 9, 13, 16, 17
Ch. 13	1, 2, 3, 11, 15
Ch. 14	3, 11, 13
Ch. 15	2, 3, 8, 11
Ch. 17	3, 4, 9, 11, 12, 13, 15
Ch. 18	1, 5, 6, 10, 11, 12, 13, 14
Ch. 19	4, 5, 6, 7, 8, 9, 14, 18
Ch. 20	None