

CASE WESTERN RESERVE UNIVERSITY

Weatherhead School of Management

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BAFI 402-2
Financial Management I
Fall 2001
Thu, 6-8 pm
ENT 400

Course Syllabus

Introduction

This is a course in Corporate Finance dealing with investment theory and financial value. The course materials cover discounted cash flows, bond and stock valuation, cost of capital, capital budgeting, asset's risk and return, capital market efficiency, and applications of real options in investment analysis. The tools, problem solving techniques, and ways of thinking that you develop in this course have broad applicability to all areas of business. They also form the basis for sensible personal decisions in the areas of investments, borrowing, and financial planning.

This course is the prerequisite for BAFI 403, which deals with capital structure, financial leverage, long-term financing and some special topics related to the materials covered here. It is also a required course for all other advanced finance electives.

You should read this syllabus very carefully. It describes all the components of the course, and provides lots of information. Most importantly, this constitutes my contract with you. I will stick to the terms of the contract, and will expect the same of you. Please do not ask me to deviate from the terms of this contract. To deviate would be unfair to your colleagues and might hinder your own learning, so I shall not do that. I will expect that you know the information in this syllabus.

Prerequisites

The prerequisite for BAFI 402 is ACCT 401, therefore **I will assume that all students are totally familiar with basic financial accounting concepts**, including reading and interpreting the balance sheets, income statements, cash flow / funds flow statements of companies, the difference between earnings and cash flows, the effects of depreciation and amortizations on earnings and cash flows, the tax impact of depreciation, etc. *If you feel you are not comfortable with these concepts, you need to revisit your accounting textbooks and bring yourself up to speed. Without the knowledge of these concepts, it may be very difficult for you to understand some parts of the course.*

Secondly, this is a quantitatively oriented course, so some of you may find it a tough course. It would be beneficial to you if you brush up your statistics concepts as well,

especially how to compute the mean, standard deviation and variance of a random variable, and how to compute the covariance and correlation between two random variables.

Course Materials

- Textbook: Ross, Westerfield, and Jaffe, *Corporate Finance*, 6th Edition, McGraw-Hill – this is a required text for this course.
- The class overheads would be on my web page at least one week before class, at <http://weatherhead.cwru.edu/gupta>. **Its your responsibility to print them out ahead of class, read them, and bring them with you to class so that you do not have to write them down by hand. Please note that I would not be distributing these in class at all.**
- The homework problem sets are outlined in this syllabus, along with the submission due dates.
- Solutions to the problem sets will be put up on my web page after the assignments are turned in.
- Some financial newspaper, like the Wall Street Journal or the Financial Times, as well as a business publication, like the Economist or Business Week.

You will also need a financial calculator for this course. You can come and discuss with me what kind of calculator you would need. I shall also be discussing it in class.

Grading

Problem Sets	30%
Mid-Term Exam	35%
Final Exam	35%

Your grade in the course depends on your cumulative score in the problem sets and the exams as per the weights given above. Generally, the cutoff between an 'A' and a 'B' is 85% of the possible points, while the cutoff between a 'B' and a 'C' is about 65% of the possible points, assuming grades lower than 'C' are not necessary. I hope to assign no grades lower than 'C', though I may be forced to do so if the performance warrants a lower grade, in order to maintain proper standards. Also, the exact cutoffs for the grades would be decided by me at the end of the semester based on the overall performance level of the class. You may use the guide above as an indication of your progress towards a grade, but should be aware that it is not precise.

Problem Sets

There are six problem sets consisting of various questions from the text. These problems are useful in helping you understand the materials covered and consolidate the knowledge obtained in class. They also provide a good review for the exams. Solutions for these problem sets will be put up on my web page after the assignments are turned in. The problem sets must be done **individually**. They should either be typed or neatly hand written. Each problem set will be evaluated out of 5 points as follows:

<i>Excellent</i> (attempted all questions, most of them correctly)	5/5
<i>Satisfactory</i> (Good faith attempt made to attempt all questions, but substantial mistakes)	3/5
<i>Unsatisfactory</i> (Good faith effort doubtful, too many mistakes)	1/5
<i>Not submitted</i>	0/5

You can either hand in the assignments in class, or fax them to my office, or e-mail them to me, but **they must reach me by the start time of our class on which they are due for them to be evaluated. Late submissions will not be accepted at all.**

Exams

There will be one in-class midterm exam on October 11, and one in-class final exam on December 6. The final exam is not comprehensive. I will hold review sessions before both the exams.

You may bring one 8½ x 11 inch sheet of notes into each exam. You can put any useful information you want on this sheet.

To maintain order in the course, we have to work as per a set schedule. The class-by-class schedule is given in this course outline, so you should plan your work schedules accordingly. ***If you have any problems with the exam dates, or with any of the other class dates, please let me know in written by September 15 – after that, I will assume that you have sorted out your schedules, and I would not be able to reschedule anything, unless its a medical emergency (for which you would need to produce sufficient evidence).***

Class Participation

I encourage you to ask questions and share your insights in class as much as possible. You and your classmates will benefit from this. Also, the onus of understanding all the materials in this course is on you. If you do not understand anything in class, you should feel totally free to stop me right there and ask me to explain it again. If you do not agree with something I say, you should challenge me immediately – I would urge you to never accept anything I say unless you are yourself convinced that it is right. This way, we can have a very rewarding exchange of thoughts throughout the course. **Remember, if you do not ask me any questions, I will assume that you have understood the materials perfectly.**

If, at any stage, you feel you have trouble keeping up with the course, please get in touch with me immediately so that we can try and do something about it before it is too late. Please note that nothing can be done about it once the course is over and your grades have been assigned.

Office Hours and Communication

I encourage you to communicate with me by e-mail so I can respond to you with a written note. You can always call me at 368-2938 to make an appointment to see me.

Outside of class, my primary mode of communication with you will be via e-mail. From time to time, I'll send you mails regarding any changes in the schedule, any extra readings that you need to do before class, or any other announcements. For this purpose, I will use the class e-mail list provided by Weatherhead. I would urge you to check your Weatherhead e-mail account at least once every day. If you cannot access your Weatherhead account for any reason, you can have your mails forwarded to an e-mail address of your choice – so please get your mails forwarded in case you do not plan to access your Weatherhead account periodically. I believe it is a very simple procedure that you can do over the net. You can contact the ITG help desk if you have any questions regarding forwarding your e-mails. **Its your responsibility to either check your Weatherhead e-mail or get them forwarded – I will assume that you are getting the e-mails I am sending to you.**

Teaching Assistant

There will be a TA for this course who will be available for helping you with the course during his office hours, which I shall announce in class.

If you face *any* problems understanding any of the materials in the course or the homeworks, I would urge you to first contact the TA, either via e-mail or personally. The TA would be very familiar with these concepts and should mostly be able to solve your problems. If, after talking to the TA, your problem is still not resolved, you are always welcome to contact me (and you *should* do that - don't leave your problem unresolved!). The TA would also be the one grading your homeworks, and is an excellent resource available to you throughout the course, one which you should make full use of.

Course Outline

<u>Date</u>	<u>Topic</u>	<u>Chapter(s)</u>
August 30	Introduction to Corporate Finance The Corporate Objective Function Cutting Edge Applications	1
September 6	Time Value of Money	3, 4
September 13	Stock and Bond Valuation <i>Problem Set 1 Due</i> <i>(Ch. 4: 3, 4, 12, 18, 26, 32, 35, 36, 37, 44, 52)</i>	5

September 20	Net Present Value and Other Criteria for Investment Decisions Problem Set 2 Due (<u>Ch. 5</u> : 4, 5, 10, 17, 21, 27, 30)	6
September 27	Capital Budgeting Problem Set 3 Due (<u>Ch. 6</u> : 2, 7, 11, 12, 18, 19)	7
October 4	Project Analysis using Decision Trees And Options Problem Set 4 Due (<u>Ch. 7</u> : 2, 7, 12, 33; <u>Ch. 8</u> : 3, 8, 10)	8
<i>October 7, Saturday</i>	<i>Pre-Midterm Exam Review (Optional)</i>	
October 11	Midterm Exam	
October 18	No Class	
October 25	Risk and Return: An Introduction <i>Discussion of mid-term exam</i>	9
<i>October 27 (Saturday)</i> <i>(Make-up Class)</i>	Risk and Return: The Portfolio Theory	10
November 1	The Cost of Capital Problem Set 5 Due (<u>Ch. 9</u> : 1, 8, 10, 12, 17; <u>Ch.10</u> : 2, 8, 9, 10, 24, 28, 34, 39)	12
November 8	Risk and Return – A comprehensive example Introduction to Real Options	
November 15	Investment Analysis Using Real Options - A Case Study Problem Set 6 Due (<u>Ch 12</u> : 3, 8, 9, 13, 14, 16)	
November 22	No Class - Thanksgiving	
November 29	Corporate Valuation: Tools and Principles	
<i>December 1 (Saturday)</i>	<i>Pre-Final Exam Review (Optional)</i>	
December 6	Final Exam	
<i>Good luck!</i>		