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


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:

<table>
<thead>
<tr>
<th>Homework</th>
<th>100</th>
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<tbody>
<tr>
<td>Six In-Class Semester Exams</td>
<td>400</td>
</tr>
<tr>
<td>(highest) and Take Home</td>
<td>500</td>
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<tr>
<td>Points</td>
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</table>

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

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

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

<table>
<thead>
<tr>
<th>Pages</th>
<th>Title</th>
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<tbody>
<tr>
<td>65 - 66</td>
<td>A Brief History of Accounting and Financial Statements</td>
</tr>
<tr>
<td>66 - 67</td>
<td>Financial Statements and Reports</td>
</tr>
<tr>
<td>68 - 72</td>
<td>The Balance Sheet</td>
</tr>
<tr>
<td>72 - 74</td>
<td>The Income Statement</td>
</tr>
<tr>
<td>75</td>
<td>Net Cash Flow</td>
</tr>
<tr>
<td>79 - 81</td>
<td>Uses and Limitations of Financial Statements</td>
</tr>
<tr>
<td>84 - 85</td>
<td>Free Cash Flow</td>
</tr>
<tr>
<td>89</td>
<td>Tying It All Together</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Pages</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>102 - 103</td>
<td>Ratio Analysis</td>
</tr>
<tr>
<td>103 - 104</td>
<td>Liquidity Ratios</td>
</tr>
<tr>
<td>104 - 107</td>
<td>Asset Management Ratios</td>
</tr>
<tr>
<td>108 - 112</td>
<td>Debt Management Ratios</td>
</tr>
<tr>
<td>112 - 115</td>
<td>Profitability Ratios</td>
</tr>
<tr>
<td>118</td>
<td>Trend Analysis</td>
</tr>
<tr>
<td>121 - 124</td>
<td>Comparative Ratios And &quot;Benchmarking&quot;</td>
</tr>
<tr>
<td>124 - 125</td>
<td>Uses And Limitations Of Ratios</td>
</tr>
<tr>
<td>128</td>
<td>Looking Beyond The Numbers</td>
</tr>
<tr>
<td>129</td>
<td>Tying It All Together</td>
</tr>
</tbody>
</table>

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