Financial Management (FIN 300)

FIN 300 – Fall 2009 – R2230 BUS

University of Michigan, Ross School of Business

Purpose:
Finance 300 is designed to familiarize students with the basic tools and concepts of Finance, and to enable students to pursue additional courses in investments, corporate finance, capital markets, and financial institutions. Topics will include the time value of money, the valuation of riskless and risky assets, market efficiency, corporate investment decision making, capital structure decisions, and risk management.

By the end of this course, a student should be able to provide estimates of the value of financial and real assets and explain the assumptions underlying his or her analysis.

Instructor:
Name: Ing-Haw Cheng
Office: R5466
Phone: 734-647-3732
Email: ingcheng@umich.edu
Office Hours: Mondays 4-6PM, R5466, or by appointment
Additional hours will be held by tutors:
M/W 2-5PM, 6-9PM in E0540
Class website: https://ctools.umich.edu/

Course Materials:

Calculator: A financial calculator is required for this course. For this course, we will be using the TI BAII Plus Professional.

Supplemental materials will be posted on cTools.

Evaluation:
Your course grade will be weighted as follows:
Homework: 20%
Midterm: 20%
Project: 10%
Final: 40%
Class & Discussion participation: 10%

The grading policy at Ross mandates < 40% at A- or above, < 80% at B or above, and > 20% at B- or below. Consistent with this policy, the class will be curved along the following distribution:

- A+ 5%
- A 15%
- A- 20%
- B+ 25%
- B 15%
- B- or below 20%

A strict ranking of students will determine the final grades. **Student rankings are over all students in all sections, per professor.**

**Homework:**
There will be ten weekly homework assignments submitted via McGraw-hill’s online homework manager. You can find an introduction to the online homework manager at: [http://mpss.mhhe.com/products-homeworkmanager.php](http://mpss.mhhe.com/products-homeworkmanager.php)

The homework manager websites for the class are:
Section 001 (1:00-2:30):

Section 005 (2:30-4:00):

Three important notes about homework.

1. Late homework is not accepted: the webpage for each assignment will be closed prior to the class-time on its due day and you will receive zero on the homework if you cannot finish it before the website is closed.

2. The flip side of this is that your lowest homework grade will be dropped. Thus one of the homework assignments is “free” and you can skip it if you choose. However, we don’t encourage this since the homework assignments are good preparation for the exams.

3. Homework must be submitted individually, but we encourage you to form study groups and discuss the problems with your fellow classmates.

**Exams:**
Midterm: October 22\textsuperscript{nd} (in-class)
Final: December 18th, 8-10AM in R1210, R1220, R1230
Conflict Exam Time: December 18th, 10:30-12:30 in R1210

A few notes about exam scheduling:
1.) **Midterm:** There will be no makeup midterm. If you miss the midterm because of a well-documented, valid written excuse (e.g., serious illness with doctor’s note, family emergency), the weight on the midterm will be shifted to the final. Otherwise, missing the midterm is equivalent to getting a grade of zero for it. Note the midterm is in class.

2.) **Final:** The final exam schedule is set by the University. In accordance with RSB policy, you can request to take the final in a “Conflict Exam Time” if (1) you have four examinations in one day, or (2) you have a conflict with a religious holiday (see [http://www.provost.umich.edu/calendar/religious_holidays.html](http://www.provost.umich.edu/calendar/religious_holidays.html)). If you have a well-documented emergency (e.g., serious illness, family emergency) such that you cannot make either scheduled time, please raise this with us as soon as possible.

3.) **Exam Hours:** Please note that in-class exams ARE on Michigan time but the final exam is at the time stated.

4.) **Recruiting Activities:** Note that it is RSB policy to not consider recruiting activities as an excuse for a missed exam. Sorry.

You will be allowed to bring one 8-1/2” x 11” sheet of paper with notes and formulas (both sides are ok) on it. The paper must be handwritten, not photocopied or from a computer print-out, and handed in along with the exam. You will be allowed to bring **two calculators** to use for the exams. All exams must be completed individually.

**Team Project:**
The purpose of the project is to apply the financial tools we develop in this class to build a valuation model.

Teams of 3-4 students will be randomly assigned after the first week of class. Details of the project will be distributed as the course progresses. You are to work together to build a valuation model for a real company and submit deliverables once near the middle of the semester and once at the end of the semester (exact dates to-be-announced), via e-mail. Deliverables should consist of a 10-15 slide PowerPoint presentation containing an overview of your calculations and findings and an Excel spreadsheet containing the bulk of your work. Make sure the names of all group members and the assigned group number are included in both reports. Late deliverables will not be accepted.

The report will be graded based on accuracy and the extent to which it is professionally executed. You should imagine yourselves as a team of 3-4 analysts at a firm working together who will make a presentation to your partner / director. In addition to getting the answer right, you want to make a good impression; be concise, straight to the point, yet thorough and professional in your slides, and have the firepower in your Excel model to back it up.
All team members need to actively participate in the project. At the end of the semester, we will ask each team member to fill out a team evaluation form assessing their teammates’ relative contribution to the project. In extreme cases, individual project grades may be adjusted up or down based on self and peer evaluation.

**Class Attendance and Participation**
Factors that influence the participation portion of your grade include attendance, promptness, and participation in class discussion. Allocation of participation points is at the discretion of the instructor.

If you cannot attend class, please inform us as soon as possible. You may attend a different section as a make-up up to three times. Sign-in sheets will be passed around at the beginning of each class.

**Laptop and Mobile phone Policy:**
Sorry, no cell phone usage or laptops in class; this includes texting. Turn them off before class begins.

**How to Excel in this Course:**
I realize this is the first course in finance for many of you. Here are some of my thoughts around what helps make a successful finance student, business school student, and successful business-person in general.

1. **Be self-directed.** Keep up with the assigned course work. Your individual study and preparation outside of the classroom is extremely important to a successful semester – it will be difficult to catch up if you fall behind. As in the real world, it helps to be self-directed in using all resources – class notes, textbook, reading the news, etc. – in learning the material.

2. **Working on problems is vital to the learning process in this class.** There is no single better way to understand the concepts encountered in this course. If you can work through the problems assigned throughout the course, you will have an advantage on the exams. Furthermore, the problems will help you identify areas in which you may wish to seek further clarification.

3. **Work well with others.** Teamwork is an important skill in the business world. When an employer thinks about hiring you, the inevitable question they ask themselves is, would they want you on their team? Do they want to work with you? You learn from your teammates and classmates and they help you get stuff done, even if you feel it would be better if you did everything yourself. Cultivating this skill is a good idea.
4. Communicate effectively. Another important skill in the business world. In an academic context, this means asking questions if you don’t understand. Also, for your project, it will help to work well with your teammates.

5. Pay attention to detail. The “80/20” rule says that 20% of the effort will get you 80% of the way there. The corollary is that the last 20% takes 80% of the effort. While the 80/20 rule will get you by, people (especially junior analysts) who deliver the last 20% stand out. The people you will work for are busy people whose time is very expensive. Being thorough and correct the first time around is valuable.

6. Do not hesitate to seek help EARLY if you are having problems in the class. I will be available during office hours and by appointment.

Class & Assignment Schedule:
Below is a list of planned topics and homework due dates. Lectures marked with an asterisk (*) have supplemental readings in addition to the text. I have picked readings from scholarly articles (or are articles about scholarly articles) that I think are easily accessible. From time to time, additional short articles, readings, or supplemental problems may be distributed in class.

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<thead>
<tr>
<th>Date</th>
<th>Day</th>
<th>Topic</th>
<th>Text</th>
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<tbody>
<tr>
<td>8-Sep</td>
<td>Tu</td>
<td>Introduction</td>
<td>Ch. 1</td>
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<td>10-Sep</td>
<td>Th</td>
<td>Financial Statement Analysis</td>
<td>Ch. 2</td>
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<td>15-Sep</td>
<td>Tu</td>
<td>The Time Value of Money</td>
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<td>17-Sep</td>
<td>Th</td>
<td>Discounted Cash Flows I</td>
<td>Ch. 6</td>
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<tr>
<td>22-Sep</td>
<td>Tu</td>
<td>Discounted Cash Flows II</td>
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<td>24-Sep</td>
<td>Th</td>
<td>Valuing Bonds I</td>
<td>Ch. 7</td>
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<td>29-Sep</td>
<td>Tu</td>
<td>Valuing Bonds II</td>
<td>Ch. 7</td>
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<td>1-Oct</td>
<td>Th</td>
<td>Valuing Stocks</td>
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<td>6-Oct</td>
<td>Tu</td>
<td>Net Present Value I</td>
<td>Ch. 9</td>
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<td>8-Oct</td>
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<td>Net Present Value II</td>
<td>Ch. 9</td>
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<td>13-Oct</td>
<td>Tu</td>
<td>Estimating Cash Flows I</td>
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<td>15-Oct</td>
<td>Th</td>
<td>Estimating Cash Flows II</td>
<td>Ch. 10</td>
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<td>20-Oct</td>
<td>Tu</td>
<td>Fall Break - No Class</td>
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<td>22-Oct</td>
<td>Th</td>
<td>MIDTERM EXAM (In Class)</td>
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<td>27-Oct</td>
<td>Tu</td>
<td>Project Analysis and Evaluation I</td>
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<tr>
<td>29-Oct</td>
<td>Th</td>
<td>Project Analysis and Evaluation II</td>
<td>Ch. 11</td>
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<td>3-Nov</td>
<td>Tu</td>
<td>Market Efficiency</td>
<td>Ch. 12</td>
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<td>5-Nov</td>
<td>Th</td>
<td>Risk and Return*</td>
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<td>10-Nov</td>
<td>Tu</td>
<td>CAPM I</td>
<td>Ch. 13</td>
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<td>12-Nov</td>
<td>Th</td>
<td>CAPM II*</td>
<td>Ch. 13</td>
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<td>17-Nov</td>
<td>Tu</td>
<td>Capital Structure I</td>
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<td>19-Nov</td>
<td>Th</td>
<td>Capital Structure II</td>
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<td>24-Nov</td>
<td>Tu</td>
<td>Options I</td>
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<td>1-Dec</td>
<td>Tu</td>
<td>Options II</td>
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<td>3-Dec</td>
<td>Th</td>
<td>Special Lecture on the Financial Crisis*</td>
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<td>8-Dec</td>
<td>Tu</td>
<td>Project Review</td>
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<td>10-Dec</td>
<td>Th</td>
<td>Final Review</td>
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*Market Efficiency & Risk and Return Readings (Required Marked with *):*


*CAPM II Readings (Required Marked with *):


*Financial Crisis Readings (Required Marked with *):


*For entertainment, interesting articles in the popular press:


Charlie Rose Video: [http://www.charlierose.com/view/interview/9221](http://www.charlierose.com/view/interview/9221)
Readings from the Economist (2009):
July 16th, “The Other-Worldly Philosophers” and “Efficiency and Beyond”
Roundtable discussion on Economist.com:
http://www.economist.com/blogs/freeexchange/lucas_roundtable/

The Honor Code
Personal integrity and professionalism are fundamental values of the Ross Business School community. This course will be conducted in strict conformity with the Academic Honor Code. The Code and related procedures can be found at http://www.bus.umich.edu/Academics/Resources/communityvalues.htm. The site also contains comprehensive information on how to be sure that you have not plagiarized the work of others.

Claimed ignorance of the Code and related information appearing on the site will be viewed as irrelevant should a violation take place. Non-Ross Business School students taking the course should also familiarize themselves with the Code as they will be subject to the Ross Code while in this course.

Students with Disabilities
If you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of the course, the assignments, and the in-class activities may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat information you provide as private and confidential.