Financial Management
FIN 503, Fall B 2012, Sections 1, 2, 4
University of Michigan, Ross School of Business

Purpose
This course is a first course in finance designed to teach the principles of financial decision-making and analysis. We will begin by discussing the time value of money and use this to understand the basic principles of real valuation and investment decision-rules as well as the basics of financial securities such as stocks and bonds. We then turn our attention to the central topics of risk and uncertainty, discussing pricing models such as the CAPM, before returning to apply our understanding of risk to understand valuation under uncertainty. We conclude with a discussion of capital structure. If time permits, additional topics will be covered.

Basic Information
Instructor: Ing-Haw Cheng
Office: R5466
Phone: 734-647-3732
Email: ingcheng@umich.edu
Office Hours: Mondays, 4-6PM, R5466
Also by appointment if that time doesn’t work.

Class website: https://ctools.umich.edu/
Lectures:
Section 1, TuTh 8:00AM – 10:20AM, R0220
Section 2, TuTh 2:10PM – 4:30PM, R0220
Section 4, TuTh 10:20AM – 12:40PM, R0220
Class on Thursday, Nov. 8 rescheduled to Friday, Nov. 9
Same times, different room: R1220.
Video for that day will be available if you have a conflict.

Course Materials
Lecture Notes. Lecture notes are the primary source of course material for this class. I will post lectures online approximately two days before class. I will bring also bring hard copies to lectures.

Required Textbook. Corporate Finance, by Ross, Westerfield, and Jaffe, 9th or 10th Edition. The 10th edition is very recent so both editions may be used; the two are very similar. The chapter numbers are identical across the two books.

CTools. Course materials, including the syllabus, assignments, and your grades will be posted on the FIN 513 CTools website. This is the primary website through which materials will be distributed and announcements made, so be sure to check it frequently.
Evaluation
Your course grade will be weighted as follows:

- Assignments (5): 20%
- In-Class Quizzes (2): 20%
- Final Exam: 50%
- Class Participation: 10%

The curve will be set across all three sections of FIN 503 taught by me. Final grades will be consistent with the Ross guidelines for core MBA courses.

Assignments. There will be four problem sets and one case submission. You may work together in groups of up to 5 students in any of the two sections, although this is not required. I encourage you to work in groups, as I think discussing problems with your classmates facilitates learning. Please form your own groups. To facilitate finding a group, I will open a thread entitled “Looking for a Group” on the Forums section of cTools. Please submit only 1 assignment per group.

Note that working in groups is not required, and in principle the problem sets may be done individually. However, working with a group will help since group members with complementary skills can advance each other’s knowledge. Of course, make sure you are prepared before the group meetings, or someone else may do all the work, and your own understanding may lag behind. Whether or not you work in a group does not affect the grade on your problem sets, only your answers do.

Assignments are due on Monday evenings (see schedule at the end), and will be based on material covered through the last class of the previous week.

In-Class Quizzes. There will be two in-class quizzes. The format will be discussed in more detail in the lead-up to each quiz. You will be allowed to use your laptop on the quizzes; effectively, the quizzes are open-book. However, you will likely not have time to flip through the book on each quiz question, so the onus is on you to be prepared.

Final Exam. The final exam is scheduled for Thursday, December 13th, 1:30PM-3:30PM. Please note that the in-class quiz begins on Michigan time but the final exam is at the time stated.

As with the quizzes, you will be allowed to use your laptop on the final, so that it is effectively open book. As with the quizzes, you will likely not have time to flip through the book on each exam question, so the onus is still on you to be prepared. The final exam will be cumulative.

Class Participation. This is largely a lecture-oriented course, but it is important for you to be engaged and to think along with me in class. For each class (starting with the second class on November 1), I will post some questions beforehand as part of your preparation. These may be discussed at the beginning of class.
In addition, engagement can be shown in different ways, including participating in class discussions, communicating with me via email on a topic related to the course, and finding typos on problem set solutions. On this component, I will reward students whose input during the term I judge to be particularly valuable in terms of its contribution to the learning of the class.

**Re-Grade Policy.** If you wish to have an assignment or exam re-graded, return it to me with a note explaining why you want a re-grade. This must be done no later than a week after the assignment/exam has been returned. We will re-grade the entire assignment or exam from scratch (it is possible to lose points if other mistakes are uncovered).

**Course Rules**
1) **Be Prepared.** Review the posted lecture notes and work through the preparation questions before coming to class.
2) **Attendance.** If you have to miss class, please let me know ahead of time via the online system. Systematically not attending class may adversely affect your class participation score.
3) **E-mail.** Please begin subjects in your emails with “FIN 503,” e.g., “FIN 503: Argh!”
4) **Cell phones.** Please set them to silent or turn them off during class.

**Class & Assignment Schedule**
Below is a list of planned topics and problem set due dates. Six week terms tend to be short and intense. If you fall behind in Week 2, there is very little time to catch up. If you are having trouble with any aspect of the course, please let me know early. On an ongoing basis, it’s a good rule of thumb to be prepared. Look through the lecture slides and think about the material before you come to class. Keep up with the problem sets and solutions. Chapter numbers are the same in both the 9th and 10th editions of RWJ.

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<th>Class</th>
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<th>Topic</th>
<th>RWJ Chap.</th>
<th>Notes</th>
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<td>30-Oct</td>
<td>Introduction Time Value of Money</td>
<td>1,4</td>
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<td>2</td>
<td>1-Nov</td>
<td>Time Value of Money, Part 2</td>
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<td>3</td>
<td>6-Nov</td>
<td>NPV and Other Valuation Criteria</td>
<td>5</td>
<td>Problem Set 1 Due Mon., 11/5, 10PM</td>
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<td>4</td>
<td>9-Nov</td>
<td>Cash Flows and Capital Budgeting</td>
<td>6</td>
<td>Class rescheduled to Friday, November 9*</td>
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<td>5</td>
<td>13-Nov</td>
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<td>6</td>
<td>15-Nov</td>
<td>Security Valuation: Bonds, Part 2</td>
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<td>7</td>
<td>Columbia Alloys Case Risk and Return</td>
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<td>8</td>
<td>Portfolio Theory CAPM</td>
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<td>9</td>
<td>Quiz #2 CAPM, Continued Cost of Capital</td>
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<td>Capital Structure</td>
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<td>11</td>
<td>Capital Structure</td>
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<td>Pioneer Case Market Efficiency</td>
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<td>13-Dec</td>
<td>Final Exam</td>
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* Video for that day will be available if you have a conflict.

**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](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.

Specific rules for this course:
- The exams must be done individually, without contact with anyone else.
- You may discuss problem sets with students outside your group. However, you are not allowed to copy part or all of another group’s spreadsheet. Each group must construct its own solutions to each problem set.
- You are not allowed to use any material from prior versions of FIN 503 or FIN 513 on either the group problem sets or exams.

**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.

**Ross Commitment to Learning**

The Ross learning experience transforms students by developing the ability to think rigorously, work collaboratively, and lead effectively. The classroom and course work are the foundational components of the Ross learning and growth process. Classroom activities are central to each student’s experience – an experience they share with their classmates and faculty to develop each student’s knowledge and personal growth and that of the student body as whole. Due to the importance of this shared experience, students should attend all classes, arrive on time, stay in class throughout and be prepared to contribute to the learning process for all. The expected level of engagement goes far beyond mere physical presence in class. Rather, students should come to each class having read all material, prepared all assignments, and ready to share their insights, thoughts and intellectual struggles with their classmates. Students should remain engaged and attentive throughout class, both for their own learning and in respect to the rest of the Ross community. Violations of these expectations will be reflected by reductions of the class participation grade as well as other penalties the faculty may view as appropriate.