Financial Analysis  
FIN 513, Fall A 2011  
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 and the principles of market efficiency, 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: Thursday, 4:30-5:30PM, R5466
Class website: https://ctools.umich.edu/
TA: Dan Weagley  
Office Hours: Thursday, 10:30AM-12PM (see CTools for location)  
Email: weagley@umich.edu
Lectures:  
Section 1, MW 10:20AM – 12:40PM, R1220  
Section 2, MW 2:10PM – 4:30PM, R1240

Course Materials
Textbook. Corporate Finance, by Ross, Westerfield, and Jaffe, 9th Edition, ISBN: 9780077337629. A special deal has been negotiated with the publisher for a cheaper edition of the book when purchased through the University book stores. The specially priced loose-leaf books include access to an online homework system by the publisher (where you can find practice problems) and the e-book.

Lecture Notes. I will post lectures approximately two days before class. I will bring a limited supply of hard copies to lectures.

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:

- **Problem Sets:** 20%
- **Individual Assignment:** 25%
- **Final Exam:** 45%
- **Class Participation:** 10%

The curve will be set across both sections of FIN 513. Final grades will be consistent with the Ross guidelines for core MBA courses.

**Problem Sets.** There will be four problem sets. You may work together in groups of up to 5 students in either of the two sections. In fact, 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. Late problem sets are not accepted.

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.

I will also open a cTools thread under “Discussion” to answer clarifying questions, so that everyone in the course has access to the same online information. If you need help interpreting the information in a question or what you are being asked to do, please post a question to this thread. The thread may also be used to conduct online discussions.

Problem sets are due on Fridays (see schedule at the end), but they will only be based on material through the Monday of that same week. (The Friday deadline is an artifact of this being a Monday/Wednesday class with the first class on a Wednesday.)

**Individual Assignment.** You will have one assignment that is to be completed individually, without consulting others.

**Final Exam.** The final is scheduled for Friday, October 21st, 8AM-10AM. Please note that in-class exams ARE on Michigan time but the final exam is at the time stated.

The exam will be comprehensive. You will be allowed to use your laptop on the exam; effectively, the exam is open-book. However, you will likely not have time to flip through the book on each exam question, so the onus is on you to be prepared.
**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. 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).

**Addenda & Course Rules**

- **Name cards.** Display your name cards throughout the course.

- **No cell phones.** Turn them off or to silent before class begins.

- **Michigan time.** Please be punctual; classes start on Michigan time.

- **Honor code.** Adhere to the honor code – see the bottom of this syllabus.

- **E-mail.** Please begin subjects in your emails with “FIN 513,” e.g., “FIN 513: Argh!”

- **Attendance.** If you have to miss class, please let me know ahead of time via e-mail. Systematically not attending class may adversely affect your class participation score.

**Class & Assignment Schedule**

Below is a list of planned topics and problem set due dates. The term is particularly unforgiving schedule with 6-week terms. 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. Do the readings before you come to class. Look through the lecture slides and think about the material before you come to class. Keep up with the problem sets and solutions.

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Topic</th>
<th>RWJ Chap.</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7-Sep</td>
<td>Introduction Time Value of Money</td>
<td>1,4</td>
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<tr>
<td>2</td>
<td>12-Sep</td>
<td>Time Value of Money, Part 2</td>
<td>4</td>
<td></td>
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<tr>
<td>3</td>
<td>14-Sep</td>
<td>NPV and Other Valuation Criteria</td>
<td>5</td>
<td>Problem Set 1</td>
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<tr>
<td>4</td>
<td>19-Sep</td>
<td>Cash Flows and Capital Budgeting</td>
<td>6</td>
<td>Due Fri., 9/16, 11PM</td>
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<td>Date</td>
<td>Day</td>
<td>Event</td>
<td>Pages</td>
<td>Due Date</td>
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<td>5</td>
<td>21-Sep</td>
<td>Weds. Columbia Alloys Case</td>
<td>6</td>
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<tr>
<td>6</td>
<td>26-Sep</td>
<td>Mon. Security Valuation: Bonds</td>
<td>8</td>
<td></td>
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<tr>
<td>7</td>
<td>28-Sep</td>
<td>Weds. Security Valuation: Equities Risk and Return</td>
<td>9, 10</td>
<td>Fri., 9/30, 11PM</td>
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<tr>
<td>8</td>
<td>3-Oct</td>
<td>Mon. Portfolio Theory Capital Asset Pricing Model</td>
<td>11</td>
<td></td>
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<tr>
<td>9</td>
<td>5-Oct</td>
<td>Weds. CAPM, Continued Cost of Capital</td>
<td>11, 13</td>
<td>Fri., 10/7, 11PM</td>
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<tr>
<td>10</td>
<td>10-Oct</td>
<td>Mon. Market Efficiency</td>
<td>14</td>
<td></td>
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<tr>
<td>11</td>
<td>12-Oct</td>
<td>Weds. Capital Structure</td>
<td>16, 17.1-17.4</td>
<td>Fri., 10/14, 11PM</td>
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<td>12</td>
<td>17-Oct</td>
<td>Mon. TBD</td>
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<td>21</td>
<td>21-Oct</td>
<td>Friday Final Exam</td>
<td>8:00AM-10:00AM</td>
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**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 individual assignment and final 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 someone else’s spreadsheet. Each group must construct its own solutions to each problem set.
- On the problem sets, individual assignment, or final exam, you are not allowed to use any material from prior versions of FIN 503 or FIN 513.

**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.