2012

FINC 600-D12 Managerial Finance

R. Stafford Johnson
johnsons@xavier.edu

Follow this and additional works at: https://www.exhibit.xavier.edu/finance_syllabi_fall_2012

Recommended Citation
https://www.exhibit.xavier.edu/finance_syllabi_fall_2012/15

This Restricted-Access Syllabus is brought to you for free and open access by the Finance Syllabi 2012 at Exhibit. It has been accepted for inclusion in Finance Syllabi Fall 2012 by an authorized administrator of Exhibit. For more information, please contact exhibit@xavier.edu.
COURSE OBJECTIVES AND STUDENT OUTCOME

The purpose of this course is to provide MBA students with an understanding of both basic and advanced financial management theories and strategies. Students should be able to discuss and understand with some depth the financial system, how equity and debt securities are valued, the capital formation process, portfolio and capital market theory, capital structure, corporate investment, capital budgeting, mergers and acquisitions, and financial derivatives.

Office: 236 Smith Hall
Phone: (513) 745-3108 (office), (859) 371-9922 (home)
E-Mail: JohnsonS@xavier.edu
Fax: (513) 745-4383

Class Meets: Tuesday/Thursday, 5:30-8:45 pm

Office Hours: Tuesday-Thursday: 5:00-5:30

Readings and Course Material

- Johnson, Investment Books DRAFT Chapters found in Blackboard (Book)
- Course Power Points

BLACKBOARD

In Blackboard, course information can be found in the following folders:

- **Schedule and Assignments**: Lists assignments and due dates.
- **Books**: Contains drafts of chapters for Investment Book and page proofs for *Introduction to Derivatives*
- **Power Points**: Contains PPTs
- **Excel Programs**: Contains Excel programs that can be used to work some of the problems.
- **Problems and Solutions**
  - Contains Problems
  - Contains solutions to problems
  - Contains solutions to bond book problems
  - Contains solutions to derivative book problems
- **Test Review Topics**: Contains review topics (updated prior to tests)
- **External Links**: Contains a number of economic, business, and financial web sites.
TOPICS, READINGS, AND ASSIGNMENTS

1. Portfolio Analysis and Capital Market Theory

Topics
- Security Valuation and Return
- Statistical Review
- Portfolio Analysis
- Capital Market Theory
- Arbitrage Pricing Theory

Course Readings (Blackboard, Books)
- Value and Return: Investment Book Chapter 2 (Draft)—Material not covered in class
- Statistics Review: Investment Book Chapter 9 (Draft)
- Portfolio Analysis: Investment Book Chapter 10 (Draft)
- CAPM: Investment Book Chapter 11 (Draft)

Course Power Points (Blackboard, Power Points)
- Valuation and Return—Appendix C
- Statistics
- Portfolio
- Portfolio Analysis 2
- CAPM
- APT

Course Problems and Assignment (Blackboard Folders: “Problems and Solutions” and “Schedule and Assignments”)
- Portfolio Problem Sets 1 and 2
- Markowitz Problem (Use Markowitz Excel Program)

2. Equity Evaluation

Topics
- Valuation of the Firm
- Internal and External Financing
- Stock Valuation
- Gordon Model
- Two-Stage and Three-Stage Growth Models
- Multiplier Approach
- Technical Analysis
- Efficient Market Theory
- Portfolio Revisted

Course Readings (Blackboard, Books)
- Efficient Market Theory: Stock Chapter 13

Course Power Points (Blackboard, Power Points)
- Fundamental Valuation and Gordon Model
- Fundamental Analysis—Empirical
• Technical Analysis
• Efficient Market Analysis
• Portfolio Revisited

Course Problems and Assignments (Blackboard Folders: “Problems and Solutions” and “Schedule and Assignments”)
• Stock Fundamental Problem

3. Equity Markets—Institutions

Topics
• Overview of the Financial Markets
• Equity Markets and How Securities are Traded
• Investment Funds

Readings (Blackboard, Books)
• Johnson, Investment Book Chapter Drafts: Investment Book Chapters 4, 5, and 8 (drafts)

TEST 1

• Topics 1, 2, and 3 Material Covered (Blackboard Folders: Test Review Topics and “Schedule and Assignments”)
• Problems from assignments
• Test 1 Review Topics and Institution Questions

4. Bond Evaluation and Selection

Topics
• Bond Values and Rates of Return
• Term Structure of Interest Rates
• Bond Risk
• Immunization
• Duration
• Convexity
• Bond Investment Strategies
• Bond Strategies

Readings
• Johnson, Bond Evaluation, Selection, and Management, Chapters 2-5 and 13

Course Power Points (Blackboard, Power Points; in Bond Book PPTs—Chapter 1-12; 13-22 Zip)

• Bond Book Chapter 2
• Bond Book Chapter 3 Condensed
• Bond Book Chapter 4 Condensed
• Bond Book Chapter 5
• Bond Book 13 Condensed
Assignments
- Bond Problems: Assigned End-of-the-Chapter Problems from Bond Evaluation, Selection, and Management, Chapters 2-5 and 13 TBD

5. Debt Markets

Topics
- Markets for Debt Securities

Readings
- Johnson, Bond Evaluation, Selection, and Management, 2nd edition, Chapters 6-12

Course Power Points (Blackboard, Power Points, See Bond Book Power Points Chapters 1-12 Zip)
- Bond Chapter 6
- Bond Chapter 7
- Bond Chapter 8
- Bond Chapter 9
- Bond Book Chapter 10
- Bond Book Chapter 11
- Bond Book Chapter 12

Course Assignments (Blackboard Folders: “Problems and Solutions” and “Schedule and Assignments”)
- Study end-of-the-chapter bond book questions, Chapters 6-10

6. Corporate Valuation and Capital Structure

Topics
- Corporate Valuation Revisited
- Old View of Capital Structure
- Modigliani and Miller
- Hamada
- Practical Considerations

Course Power Point (Blackboard, Power Points)
- Capital Structure

Course Problems and Assignments (Blackboard Folders: “Problems and Solutions” and “Schedule and Assignments”)
- Capital Structure Problem

7. Corporate Investment Decisions—Capital Budgeting

Topics
- Classification of capital budgeting projects
- Elements of the capital budgeting process
- Steps in capital budgeting process
- Approaches to estimating the cost of capital
- IRR
- NPV Profile
- IRR decision Rule
- When IRR and NPV approaches for mutually exclusive projects are inconsistent
- Nonconventional projects and NPV Profile
- ARR for capital budgeting
- Operating leverage
- Financial leverage
- Rule for inflation adjustments
- Rule for choice of depreciation
- Equivalent Annual Net Benefits Approach to Evaluating Projects with Different Lives
- Replacement Frequency
- Dependence: Erosion and Enhancement
- Real Options: Definition, types, and examples
- Payback Method
- Discounted Payback Method
- Profitability Index
- Break-Even Analysis
- Decision-Tree Analysis

**Course Power Points (Blackboard, Power Points)**
- Capital Budgeting

**Course Problems and Assignments (Blackboard Folders: “Problems and Solutions” and “Schedule and Assignments”)**
- Capital Budgeting Problems

8. Mergers and Acquisitions

**Topics**
- Differences in acquisition, merger, consolidation, horizontal merger, vertical merger, conglomerate merger, tender offer, and synergy.
- Technical considerations to consider in a merger: corporate charter, tax treatment, accounting issues, and antitrust considerations
- Reasons for synergy
- Comparative analysis and valuation approaches to evaluating mergers
- Tactics used in an unfriendly merger by the potential acquiring firm
- Defensive tactics target companies may take to stop current or anticipated takeover

**Course Power Points (Blackboard, Power Points)**
- Mergers

9. Long-Term Corporate Financing and Related Issues

**Topics**
- Long-Term Debt Financing
- Refunding
- Leasing
- Project Financing
• Limited Partnership Financing
• Bankruptcy
• Agency Theory

Course Power Points (Blackboard, Power Points)
• Refunding and Leasing

TEST 2:
• Topics 4, 5, 6, 7, 8, and 9

Material Covered:
• Problems from assignment sets: Bond Problems, Capital Structure, Capital Budgeting (Blackboard Folders: Problems and Solutions and Schedule and Assignments)
• Test 2 Review Topics (Blackboard Folders: Test Review Topics and Schedule and Assignments)
• Bond Institutions Chapters 6-10; Problems and Solutions (Blackboard Folders, Test Review Topics and Schedule and Assignments)

10. Derivatives—Options, Futures, and Swaps

Topics
• Option Markets and Strategies
• Option Strategies and Hedging
• Option Pricing Models
• Futures
• Futures Pricing
• Hedging and Speculating with Futures
• Futures Options
• Interest Rate Swaps
• Forward Swaps
• Swaptions
• Currency Swaps
• Credit Default Swaps

Course Readings (Blackboard, Books)
• Option Introduction—Derivative Chapter 1
• Option Market—Derivative Chapter 2
• Options Strategies—Derivative Chapter 3
• Binomial Option Pricing Model—Derivative Chapter 5
• Black-Scholes OPM—Derivative Chapter 8
• Futures—Derivative Chapter 10
• Futures Pricing—Derivative Chapter 11
• Futures Options—Derivative Chapter 12

• Swaps: Johnson, Bond Evaluation, Selection, and Management, 2nd edition, Chapters 20, 21, and 22.

Course Power Points (Blackboard, Power Points)
• Derivatives Options
• Derivatives Futures
• Derivatives Swaps
• Currency Swaps
• BOPM
• B-S OPM

Course Problems and Assignments (Blackboard Folders: “Problems and Solutions” and “Schedule and Assignments”)
• Study select problems from the Derivative Book Chapters:
• Option Problems and Solutions
• Futures Problems and Solutions
• Swap Problems and Solutions

11. Working Capital

Topics
• Management of Liquidity and Current Assets
• Accounts Receivable and Inventory
• Treasury Management
• Financial Planning

Lecture based on Emery and Finnerty: Ch 19-22

FINAL EXAM: The final exam will be based on questions and problems from Tests 1 and 2 and from Topics 10 and 11.
### SCHEDULE AND ASSIGNMENTS
(See “Syllabus, Assignments, and Schedule” Folder in Blackboard)

<table>
<thead>
<tr>
<th>Class</th>
<th>Topics</th>
<th>PPTs</th>
<th>Assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuesday</td>
<td>• Statistical Review&lt;br&gt;• Portfolio Analysis</td>
<td>• Statistics&lt;br&gt;• Portfolio&lt;br&gt;• Portfolio Analysis 2&lt;br&gt;• CAPM&lt;br&gt;• APT</td>
<td></td>
</tr>
<tr>
<td>August 21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thursday</td>
<td>• Portfolio Analysis&lt;br&gt;• Capital Market Theory&lt;br&gt;• Arbitrage Pricing Theory</td>
<td>• Portfolio&lt;br&gt;• Portfolio Analysis 2&lt;br&gt;• CAPM&lt;br&gt;• APT</td>
<td></td>
</tr>
<tr>
<td>August 23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuesday</td>
<td>• Valuation of the Firm&lt;br&gt;• Internal and External Financing&lt;br&gt;• Gordon Model</td>
<td>• Fundamental Valuation and Gordon Model&lt;br&gt;• Fundamental Analysis—Empirical</td>
<td>• Portfolio Problem Sets 1 and 2&lt;br&gt;• Markowitz Problem</td>
</tr>
<tr>
<td>August 28</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thursday</td>
<td>• Technical Analysis&lt;br&gt;• Efficient Market Theory&lt;br&gt;• Portfolio Revisited&lt;br&gt;• Test 1 Review Topics and Institution Questions</td>
<td>• Technical Analysis&lt;br&gt;• Efficient Market Analysis&lt;br&gt;• Portfolio Revisited</td>
<td>• Stock Fundamental Problem</td>
</tr>
<tr>
<td>August 30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuesday</td>
<td>• Bond Values and Rates of Return</td>
<td>• Bond Book Chapter 2</td>
<td>• Test 1</td>
</tr>
<tr>
<td>September 4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thursday</td>
<td>• Bond Values and Rates of Return&lt;br&gt;• Term Structure of Interest Rates&lt;br&gt;• Bond Risk&lt;br&gt;• Immunization&lt;br&gt;• Duration&lt;br&gt;• Convexity&lt;br&gt;• Bond Investment Strategies&lt;br&gt;• Bond Strategies</td>
<td>• Bond Book Chapter 2&lt;br&gt;• Bond Book Chapter 3 Condensed&lt;br&gt;• Bond Book Chapter 4 Condensed&lt;br&gt;• Bond Book Chapter 5&lt;br&gt;• Bond Book 13 Condensed</td>
<td></td>
</tr>
<tr>
<td>September 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuesday</td>
<td>• Capital Structure&lt;br&gt;• Markets for Debt Securities; Review End-of-the-chapter bond book questions, Chapters 6-12</td>
<td>• Capital Structure</td>
<td>• Bond Book Problems: Assigned End-of-the-chapter problems, Bond Chapters 2-5, 13 TBD</td>
</tr>
<tr>
<td>September 11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thursday</td>
<td>• Capital Budgeting</td>
<td>• Capital Budgeting</td>
<td>• Capital Structure Problem</td>
</tr>
<tr>
<td>September 13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuesday</td>
<td>• Mergers&lt;br&gt;• Refunding and Leasing</td>
<td>• Mergers&lt;br&gt;• Refunding and</td>
<td>• Capital Budgeting Problem Set</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Topics</td>
<td>Leasing</td>
<td>Remarks</td>
</tr>
<tr>
<td>--------------------</td>
<td>------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>September 18</td>
<td>• Test 2 Review&lt;br&gt;• Derivatives—Options</td>
<td>• Leasing&lt;br&gt;• Derivative Options</td>
<td></td>
</tr>
<tr>
<td>Thursday&lt;br&gt;September 20</td>
<td>• Derivatives—Options&lt;br&gt;• Derivatives—Futures&lt;br&gt;• Derivatives—Swaps&lt;br&gt;• Currency Swaps&lt;br&gt;• BOPM&lt;br&gt;• B-S OPM</td>
<td>• Derivatives Options&lt;br&gt;• Derivatives Futures&lt;br&gt;• Derivatives Swaps&lt;br&gt;• Currency Swaps</td>
<td>• Test 2</td>
</tr>
<tr>
<td>Tuesday&lt;br&gt;September 25</td>
<td>• BOPM&lt;br&gt;• B-S OPM&lt;br&gt;• Etc.&lt;br&gt;• Review Problems and Solution from option, futures, and swap problem sets&lt;br&gt;• Final Review</td>
<td>• BOPM&lt;br&gt;• B-S OPM</td>
<td></td>
</tr>
<tr>
<td>Thursday&lt;br&gt;September 27</td>
<td>• Final Review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friday&lt;br&gt;September 28, 4:00-7:00 and/or Saturday, September 29, 9:00-12:00</td>
<td>Bloomberg Trading Floor Session at Xavier&lt;br&gt;• Set up Bloomberg Account&lt;br&gt;• Bloomberg Workshop&lt;br&gt;• Learn Bloomberg Applications on material covered in class</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Tests and Grading

1. **Tests**: Tests will be based on material from lectures, readings, and problems. There will be two exams during the semester and a quasi-comprehensive final.

2. **Make-up tests** will be given only to students who receive permission from me in advance of the test date.

3. **Grading Weights**

   Test 1: 30%
   Test 2: 30%
   Final: 35%
   Problems: 5%

4. **Grading Scale**:

   - 93-100: A
   - 89-92: A-
   - 85-88: B+
   - 80-84: B
   - 77-79: B-
   - 74-76: C+
   - 65-73: C
   - 50-64: C-
   - 0-49: F

5. **Modifications**: The course outline is subject to modification during the semester.