

Financial Management and Markets 160:266

Dr. A. Frank Thompson

Spring 2009

320 Baker Hall

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Office Hours: TTH 11:00 AM- 12:00 PM, Thursday 5-5:30 PM

and by Arrangement, please feel free to E-mail for an scheduled appointment..

<u>Course</u>	<u>Credit</u>	<u>Section</u>	<u>Time</u>	<u>Location</u>
160:266	3	01	5:30-9:00 PM Thursday	CBB 131

Last day to drop the course w/o a W is February 27, 2009

Last day to drop the course with a W is March 24, 2009

Required Course Materials:

Brigham, Eugene F., and Michael Ehrhardt, Financial Management, Theory, and Practice, 12th Edition, (The Dryden Press: Fort Worth, TX.,2008), and the Study Guide to Accompany the text. The Study Guide is reference material and should be used to review financial management concepts from an undergraduate course in corporate finance.

[FM] = Fin. Management Theory & Practice [SG] = Study Guide

HP-10B calculator

Brigham, Eugene F., Louis Gapenski, and Linda Klein, **Financial Management and Markets: Case Applications in Managerial Finance**, Spring 2009, (The Dryden Press: Fort Worth, TX), ISBN 13:978-1-4266-5151-9. This text has been specially ordered from the publisher and is only available from the University Book Store. Cases are assigned to individual study groups for presentation and are identified according to their title in the case booklet. [CFM] = Cases in Financial Management

Lawrence A. Cunningham, How to Think Like Benjamin Graham and Invest Like Warren Buffett, (McGraw-Hill Publishing: New York, NY, 2001). [Graham] = How to Think Life Benjamin Graham and Invest Like Warren Buffett.

Frank Partnoy, **FIASCO: The Inside Story of a Wall Street Trader**, (Penguin Books, New York, NY, 1999) . [Partnoy] = Fiasco

Lowenstein, Roger, **When Genius Failed: The Rise and Fall of Long-term Capital Management**, (Random House Publishing, New York, NY, 2000). [Lowenstein] = When

Genius Failed: The Rise and Fall of Long-term Capital Management

Rod Library Basic Reference for Security Valuation Research:

<http://www.lib.uni.edu/ris/business/>

Selected Readings in Managerial Finance- Course Handouts: Over the course of the semester I will be sending you as e-mail attachments, my current research on PBGC, deposit insurance, financial institution risks, SPIC insurance coverage, and the causes and potential solutions to the current financial market meltdown, along with some sample solutions to various assigned problems. You should familiarize yourself with this material as a supplement to the regular readings and case documents.

Course Pre-requisites: 160:151 or equivalent; consent of MBA Director

Course Description: In-depth examination of the tools, concepts, theories, and analysis of managerial finance integrated with case applications. Students will be expected to apply concepts from managerial finance in analyzing, presenting and discussing cases at an advanced level.

Course Goals and Objectives:

Gain a thorough understanding of the integration of financial theory and analysis to practical business decisions. .

To understand and appreciate the inter-relationships between finance and the core business disciplines of accounting, economics, mathematical statistics, decision theory, information systems, marketing and management.

To extend student experience and knowledge of financial techniques associated with financial statement analysis, forecasting, securities valuation, hedging, working capital management, portfolio analysis, capital budgeting, capital rationing, and interest rate immunization and duration.

To learn about the ethical issues facing business, develop a working knowledge of the framework for making ethical decisions and appreciate the importance of regulating financial markets to assure safety and soundness..

To understand the multinational and international financial environment as it relates to trade among nations.

Selected Library Readings on Reserve in the Donald O. Rod Library

- [1] A. Frank Thompson, Linda Bowyer, and V. Srinivasan, "The Ohio Banking Crisis: A Lesson in Consumer Finance," The Journal of Consumer Affairs, Vol. 20, #20 (Spring 1986), pp. 290-299.
- [2] A. Frank Thompson, and Linda Bowyer, "Using Financial Futures to Hedge Interest-Rate Risk on Paid-Loss Retrospective Insurance Programs," The Journal of Insurance Issues and Practices, Vol. II, No. 2(June 1984), pp. 1-10.
- [3] A. Frank Thompson, Roger D. Rutz, and Frederic Stiner, Jr., "Fidelity Insurance: Are there Differences in Experience Among Financial Institutions," Federal Home Loan Bank Board Journal, Vol. XVI, No. 2(February 1983), pp. 2-7.
- [4] A. Frank Thompson, Linda Bowyer, and A. Bhattacharya, "Theoretical Propositions on the Effect Minimum Net Worth Requirements have on Insolvency and Bankruptcy for Stock S&Ls," Invited Research Working Paper No. 51, Federal Home Loan Bank Board, Office of Policy and Economic Research, Washington, D.C., (March 1985).
- [5] A. Frank Thompson, Anju Ramjee, and B. Ramjee, "Pension Valuation and Unfunded Liability Measurement: Financial Management Implications," 1984 Proceedings of the Risk Theory Seminar, University of Southern California.
- [6] A. Frank Thompson, Yong H. Kim, and Philip W. Glasgo, "Pension Liability Reporting under ERISA," The International Foundation of Employee Benefits Journal, (March 1983), pp. 2-8.
- [7] Philip W. Glasgo, William Landes, and A. Frank Thompson, "Bank Discount, Coupon Equivalent and Compound Yields," Financial Management, Vol. II, No. 3(Autumn 1982), pp. 80-84.
- [8] A. Frank Thompson, "Wraparound RAMS: A New Method for Providing Lifetime Annuities," Federal Home Loan Bank Board Journal, Vol. XII, No. 6(June 1981), pp. 17-19.
- [9] A. Frank Thompson, "Immunization of Pension Funds and Sensitivity to Actuarial Assumptions: Comment," Journal of Risk and Insurance, Vol. XLVIII, No. 1(March 1981), pp. 148-153.
- [10] R. Yeager, "How Safe is Your Bank," Reader's Digest, March 1988.
- [11] Nancy L. Ross, "Investors Having Doubts About High-Yield Saving," The Washington Post, August 15, 1982, Business Section.
- [12] A. Frank Thompson and Frederic M. Stiner, Jr. , "The Cyclic Behavior of U.S. Government Bonds Using Stochastic Time Series," Business Economics, (September 1980), pp. 55-58.
- [13] A. Frank Thompson, "Homeowner's Equity: Providing Lifetime Annuities for the

Elderly,” Federal Home Loan Bank Board Journal, Vol. XIII, No. 12(December 1980), pp. 23-28.

[14] A. Frank Thompson, Linda Bowyer, and Don Edwards, “A Cross-Sectional Analysis of Interest-Rate Swap Agreements Among FSLIC-Insured Thrift Institutions,” Research Working Paper No. 132, Federal Home Loan Bank Board, Washington, D.C., July 1987.

[15] A. Frank Thompson, and Frederic M. Stiner, Jr., “An Examination of Auditor Concentration in the S&L Industry,” Federal Home Loan Bank Board Journal, Vol. 17, No. 1(1984), pp. 10-15.

Tentative Course Schedule of Learning Activities

<u>Date/Day</u> <u>Assignment</u>	<u>Material</u>	<u>Reading/Research</u>	<u>Problem</u>
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Foundations of Financial Management and Markets

NOTE: Please consult the Web-Extensions for each chapter for updated information and applications related to the chapters being studied in [FM].

February 19	Introduction to Financial Mgt. [FM] Ch. 1		Questions 1-2, 1-5
20,2-24,2-25	Valuation of Cash Flows [FM] Ch. 2		Prob. 2-14,2-19,3,2-
	Financial Statement Cash Flowsand Taxes[FM] Ch. 3		Prob. 3-6,3-9,3-9,3-10
	Fin. Forecasting [FM] Ch. 14.		Prob. 14-1,14-2,14-7
	Market Structure Characteristics of Financial Derivatives: [Partnoy] Ch. 1-4		
	MBA Quiz 1 [100 points]		
	Case/Team Assignments: Groups 1-5 each having between 2 or 3 students.		
Derivatives	Readings Library [10], [11], [15]; Web extension: 1B; An Overview of		
	Financial Analysis Project. Assignment		
February 26	Financial Statement Analysis [FM] Ch. 4		Prob. 4-1,4-2,4-4,4-

6,4-8,4-9		
5-9,5-16	Fixed Income Securities [FM] Ch. 5	Prob. 5-1,5-3,5-7 thru
12,6-13	Basic Elements of Financial Risk[FM] Ch.6	Prob. 6-1,6-3,6-4,6-
	Derivative Pricing Risk [Partnoy] Ch. 5-9	
	Market Efficiency - Truth or Fiction?	
	[Graham] Preface, Chapters 1-2	
Duration	Readings Library [6], [7], [13]; Web extension: 5C Bond Risk and	
	MBA Quiz 2 [100 points]	
March 4	Towards a Common Sense Investment Approach [FM] Ch. 7 & 8	
	Portfolio Theory: What Makes Sense? [FM] Ch. 7	Prob. 7-1,7-4,7-5
7,8-14	Stock Valuation and Economic Externalities [FM] Ch. 8	Prob. 8-1,8-2,8-
5,10-9,10-11 thru	Estimating an Appropriate Cost of Capital [FM] Ch.10	Prob. 10-1,10-4,10-
10-13	Readings Library [1], [3], [5]	
1-5	Difficulties of Relying too much on Mathematical Models: [Lowenstein] Ch.	
	[Graham] Chapters 4-5	
	MBA Quiz 3 [100 points]	
March 5	Use of Financial Options: A short-term View [FM] Ch. 9	Prob. 9-1,9-
3,9-4		
11, 11-13 thru 11-16	Capital Budgeting Basics [FM] Ch. 11	Prob. 11-7 thru 11-9,11-
12-8	Cash Flow Estimation and Project Risk [FM] Ch. 12	Prob. 12-1 thru 12-4,

Catastrophic Risks in Unregulated Derivatives Market:s [Partnoy] Ch. 10-11
[Lowenstein] Ch. 6-10

Readings Library [4],[8]

Theoretical Applications in Corporation Finance

March 12 Real Options Using Decision Tree Analysis [FM] Ch. 13 Prob.
13-1,13-2,13-4

 Corporate Governance Towards Business Value [FM] Ch. 15 Prob. 15-
1,15-2,15-6,15-7

 Capital Structure [FM] Ch. 16 Prob. 16-7
thru 16-9, 16-10

 Dividend Relevancy: Practice vs. Theory [FM] Ch. 18 Prob. 18-
1,18-2,18-6,18-7,18-9

Valuing a Business - For What It's Worth

[Graham] Chapter 6

MBA Quiz 4 [100 points]

Readings Library [12]

March 13 Through March 23, 2009 Spring Break

March 26 Investment Banking & IPO Offerings [FM] Ch. 19 Prob.
19-2,19-3

 Working Capital Management: Maintaining Solvency [FM] Ch.22 Prob.
22-1,22-2,22-6,22-7,22-9,22-12

MBA Quiz 5 [100 points]

Group 1 **MacMillan and Grunski Consulting, Fundamental Concepts, Case 92:**

Peachtree Securities, Inc. (A & B) Concepts, Case 2 & 3: Group 6

Group 3 **Garden State Container Corporation, Financial Forecasting, Case 36:**

Readings Library [2]

The Allegory of Cave Paper is Due [50 points]

April 2

Duration and Immunization

Financial Futures/Long-Term Fixed Inc. Instruments

Readings Library [2],[14]

Financial Analysis Project Due - 50 Points

Interest Rate Swap Agreements

2,5

New England Seafood Company, Capital Budgeting, Case 16: Groups

Cranfield, Inc. (B), Capital Budgeting, Case 45: Groups 3,6

April 9

Financial Analysis of Financial Institutions

Optimal Capital Structure - Controversy with

Technological Change, and Reinvestment

Chef's Selection, Working Capital, Case 86: Group 1

Shenandoah Power, Long Term Financial Decisions, Case 38: Group 4

Armstrong Production, Capital Structure, Case 83: Group 5

Outside Reading: Paul A. Samuelson, "Some Aspects of the Pure Theory of Capital," The Quarterly Journal of Economics, (May 1937).

April 16

Islemarine Boat Company, Capital Structure, Case 56: Group 2

Art Deco Reproductions, Inc., Long Term Financing, Case 23: Group 4

Fit Trainer Company, Capital Structure, Case 88: Group 3

Financial Issues Related to Pension Management

	Readings Library [5], [6]
April 23	Financial Derivatives: Their Use, and Misuse in Business Practical Ways of Evaluating Contingent Claims Risk Accounting Numbers in Relation to Financial Investing [Graham] Chapters 8 through 10 Silicon Valley Medical Technologies, Cost of Capital, Case 4: Group 2 Mitchell Lumber Co, Working Capital, Case 70: Group 1
April 30 Group 3	Garden State Container Corporation, Financial Forecasting, Case 36:
Group 5	Automated Banking Management, Inc., Financial Forecasting, Case 38: Virignia May Chocolate Company: Special Topics, Case 27
	Readings Library [2], [9]
May 7	Comprehensive Final Exam & Case Study (100 points)

Grading Information:

All assignments are due on the date designated in the course outline (i.e., no late assignments will be accepted). You will need to bring at least three blue books for the in-class case exam, as well as, the comprehensive final exam. Total points will be awarded as follows.

<u>Assignment</u>	<u>Total Points Possible</u>
Quizzes / Outside Assignments	400
Team Case Presentation	300
Financial Analysis Project	50
Allegory of the Cave Paper	50
Comprehensive Final Exam	<u>100</u>

Total Points for the Course	900
<u>Grade Line</u>	<u>Point Range</u>
A	900-864
A-	863-810
B+	809-783
B	782-756
B-	755-729
C+	728-702
C	701-675
C-	674-630
D+	629-603
D	602-576
D-	575-540
F	539-0

General Classroom Policies:

You are expected to come to class prepared to discuss and answer questions relating to all the reading material, assigned problems, and case materials for the day. Some quizzes may require that you have a blue book available to answer questions over the readings. Please have at least two blue books available for this purpose each day of class. In order to preserve the teaching environment for all students attending class, there will be no consumption of food or talking while someone is presenting a case or lecture.

During in-class exams and quizzes once you begin an exam or quiz you may not leave and then return to the test site.

The rules to the university with respect to academic honesty will be adhered to. Under university policies you are required to refrain from cheating yourself, and to report all incidents

of cheating should you witness it on the part of other students. Outside classroom assignments other than team cases are to be completed on your own. The team case assignments are to be developed only with members of your team, and no one else (i.e. the team presentations are to be a product of your own group's effort).

Team projects are due on the date assigned, as in the business world there is no provision for late assignments.

Grading of written work will be on the basis of a number of factors:

- 1) Do you present a set of clear, concise, and cogent arguments to develop your position
- 2) Is the material free of grammatical errors?
- 3) Is the writing correct on the terms of financial theory?
- 4) Do you provide reading references to back-up your financial analysis?
- 5) Is your presentation complete with a reasonable length? Long discourses that add little substance to the issues of a case or question will be downgraded.
- 6) Does the writing demonstrate creative and critical thinking on the elements of the case or questions?
- 7) Have you developed a working hypothesis related to the readings or case material not currently addressed in the literature?
- 8) Have you outlined how your working hypothesis might be tested to determine whether it should be accepted or rejected?

The usual caveats with respect to this class are the same as with any UNI course. Students are expected to be familiar with the rules of the University and College of Business concerning its Academics Ethics Policy. You may obtain a copy of this policy through in room 321B

Special Needs Consideration: UNI is an Affirmative Action Equal Opportunity Institution. The Americans with Disabilities Act of 1990 provides protection from discrimination for qualified individuals with disabilities. Students with a disability, who require assistance, will need to contact the Office of Disability Services (ODS) for coordination of academic accommodations. The ODS is located at 213 Student Services Center. The phone number is (319) 273-2676.

Study Guide Questions and Problems

As you prepare for quizzes and exams in Finance 160:266, I would like you to review the

following Study Guide Questions and Problems. By working the assigned text problems and reviewing these study guide materials, you should be well prepared for the exams and quizzes. Required Material: Financial Management Study Guide, 11th Edition, E, Brigham, and Michael Ehrhardt.

Chapter 1: An Overview of Flow Management

Conceptual Questions: 36,37

Self-Test Questions: 1,2,3,6

Chapter 2: Time Value of Money

Self- Test Problems: 1, 2, 4, 5, 10, 11, 12, 13, 14, 17, 21,25

Chapter 3: Financial Statements, Cash Flow, and Taxes

Self Test Questions: 1 ,5,6,20,26

Self Test Problems: 1-4,8,11,12,14

Chapter 14: Long Term Financing Planning

Self Test Questions: 1 to 4, 8,16, 19

Self Test Problems: 1 to 3

End of First Week's Material

Chapter 4: Risk and Return-Basics

Self Test Questions: 3-5,8,16,18,22

Conceptual Questions: 23,25

Self Test Problems 1 to 4,6-7,11

Chapter 5: Risk and Return: Portfolio Theory & Asset Pricing Models

Self Test Questions: 1, 2,8-10,20

Self Test Problems: 1, 2, 5,6

Chapter 13: Analysis of Financial Statements

Self Test Questions: 1-5,8,11,12,15-17

Conceptual Questions: 27

Self Test Problems: 1-11,13,14,18,19

Chapter 6: Bonds and Their Valuation

Self Test Questions: 1-3,7-10,15,21,22

Conceptual Questions: 38

Self Test Problems: 1 to 4, 7

End of 2nd Week's Material

Chapter 7: Stocks and Their Valuation

Self Test Questions: 1-3, 8, 9, 14, 20, 24

Conceptual Questions: 29

Self Test Problems: 1-4

Chapter 8: Financial Options and Their Valuation

Self Test Questions: 1-3,5,7-9

Self Test Problems: 1-3

End of the 3rd Week's Material

Chapter 9: Cost of Capital

Self Test Questions: 1, 4,5, 7,11,12,15,24,25

Conceptual Questions: 28

Self Test Problems 1, 2, 11-12

Chapter 10: Capital Budgeting Basics

Self test Questions: 1-4,7,10-13,17,25

Conceptual Questions: 37, 38

Self Test Problems: 1-5

End of 4th Week's Material

Chapter 11: Cash Flow Estimation

Self Test Questions: 1-3, 7- 9,15

Conceptual Questions: 21, 22

Self Test Problems: 1, 3,8-10

Chapter 16: Capital Structure Decisions: The Basics

Self Test Questions: 1,3,8, 11, 13, 18, 28

Self Test Problems: 1, 4

Chapter 17: Capital Structure Decisions: Extensions

Self Test Questions: 1, 3,7

Self Test Problems: 1, 2

End of 5th Week's Material

Chapter 22: Working Capital Management

Self Test Questions: 2-4, 6, 30-31, 35-36,50-51

Self Test Problems: 1-6, 10

Chapter 23: Derivatives and Risk Management

Self Test Problems: 1-2

Financial Analysis Project

As part of this course, you will develop a detailed analysis of a publicly traded stock. During the first week of class you will select a company from the following list to do your research on.

Symbols of Project Corporations: ADP AXP BA BBY BEZ BMY BRKB CAT CNI CAG
DIS DE EMC EMR KO LUV MCD MDT MMM NOK ORCL PEP QCOM SLE SLB T TXN
TWX VSH WAG WFC USB UNP

There are several library/reporting service references available to you: Moody's Online,

Research Insight, Valueline, CompuStat, SEC/EDGAR, Standard and Poor's Reports. You should try to consult each of these sources to determine independently the background on the company you are analyzing. This executive report will be no longer than 7 double-spaced typed pages, including bibliography, charts and spreadsheet analysis. You have \$60,000 to invest in your portfolio of \$600,000. Currently you own 10 stocks with a market value of \$600,000, in a diversified portfolio with a beta of 1.2 (i.e., each of the 10 other stock positions is worth \$60,000). You are to give a reasoned argument as to why your particular stock should or should not be included in the portfolio. The nine other stocks are as follows:

XOM PG GE LOW JNJ MSFT WMT CSCO PFE INTC

You will be expected to use CAPM, DCF, Bond yield plus risk premium, Black-Scholes and Financial Ratio Analysis to support your claim either way to adding or avoiding your selected company. Please use the University Chicago Manual of Style and Form to report your research findings. Grading will be based on how well you present your results in terms of the integration of both quantitative and qualitative results. This paper will be due the beginning of class on March 23, 2006. As in the business world, there is no provision for presenting a late assignment. Failure to present any assigned material on the date required in the syllabus will result in your receiving an F for that particular part of the course.

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