

**Southern Methodist University
Edwin L. Cox School of Business**

FINANCE 3320-001H
T-Th, 11:00 – 12:20, 354MB

Professor Rex Thompson
Fall 2009

Office: 430 Fincher
Office Telephone/Voice Mail: 214-768-3052
Office Hours: TTh 9:30-10:30, or by appointment
Email: rex@mail.smu.edu

Course Overview and Objectives

Welcome to the honors introductory course in finance. The class will be taught at the graduate level except that no background in finance is assumed of the students. Therefore, all student questions are encouraged. The objective of the course is to provide an overview of financial markets and financial decision-making from the perspective of both suppliers and demanders of capital. Readings, lectures, presentations and homework focus on the financial institutions, terminology, and basic analytical tools used by financial analysts and decision-makers. Course prerequisites: Admission to Cox or equivalent (basic math, econ, statistics and accounting)

Required Texts

Ross, Westerfield and Jaffe (RWJ), *Corporate Finance, 7th Edition*, 2005. ISBN 0-07-282920-6
We will rely heavily on the text and it is a good resource for your library.

The Standard & Poor's Guide to Money and Investing (GMI), 2005. ISBN 0-9764749-8-0
This guide is a helpful read for another description of financial terminology, how financial markets are organized and how these markets work. Exam questions will not be taken from this guide and if there are contradictions with the text, the text will be taken as our authority for grading purposes.

Supplementary Reading

Ross, Westerfield and Jaffe (RWJ), *Study Guides*. These contain additional problems and show you solution techniques. Any edition is fine.

The Wall Street Journal. We will discuss current financial events reported in the WSJ.

Other Requirements

A financial calculator that computes present and future values of annuities is a big advantage. At a minimum, you will need a calculator that takes y to the power x . The **HP-10B**, **12C**, **17B** and **19B** are good financial calculators. My favorite is the **12C**. The **TI BA-II plus** or equivalent gets you down the road at minimum cost (40 bucks). The **TI 83 Plus** and **TI 84** are overkill but will be fine. We will have a session on how to use financial calculators. But spreadsheets such as Microsoft Excel are the coin of the realm for serious financial analysis. After completing this course, if you don't feel comfortable using a spreadsheet for financial problem solving, somebody else did your homework!

Course Format

The breakdown of your final grade in the class will be as follows:

Homework assignments (best 5 of 6):	30%
Class citizenship and participation	10%
2 Midterm Exams (highest score: 35%, lowest: 25%)	60%
Final Exam (optional) substitutes for a poor homework grade or your worst midterm	

Policy on Late Work or Missing an Exam: The course has two midterms and six homeworks (best five of six). If you miss a midterm, the optional final exam serves as a substitute. If you miss more than one HW, the final can substitute for your HW grade. Missing both midterms forces a student to withdraw. Make-up exams will not be given. Late homework does not count because I hand out answer keys, but it will be graded.

Homework: Group work is encouraged on homework assignments. Team efforts require communication and can improve understanding. A maximum of three people can turn in the same assignment. Groups of two are best. Groups are on their honor that each member has participated in and understands answers submitted by the group. There should be no consultation across different groups on details but general discussion is ok. Duplicate work across groups and/or using a spreadsheet not created by a team member is an honor code violation. Each homework has an extra credit portion that is advanced. The portfolio theory homework (#5) must be completed at a B level or above to opt out of the final. Book problems are for practice only. Answer keys are on reserve or in the back of the book.

Attendance and Participation: I sincerely want you to attend class. If you feel that you are not learning anything in class, we need to talk about it. The normal grade assigned for class citizenship is equal to the grade percentage that you've earned on your other work and includes class attendance as a component. Up to ten points can be awarded for helpful participation. Disruptive behavior will be penalized, but this is rarely necessary. You are responsible for knowing about any adjustments to the class schedule, which is subject to change.

Exam formats: Exams are closed book and closed notes but you may bring one crib sheet to the first midterm, two to the second and three to the final. Crib sheets must be no larger than 8.5" x 11", **single-sided**, handwritten by you (not typed); no photocopying, cutting and pasting, or multiple layers. Each exam has an extra credit (advanced) question.

Final Grades: At minimum, a standard university scale is used for assigning final grades (93, 90, 87, 83, 80, 77, 73, 70). However, I exercise the prerogative to curve grades upward to reflect the course difficulty.

SMU Honor Code: The course is fully governed by the SMU Honor Code.

Special Accommodations: Accommodations for a disability, religious observance and extracurricular activities follow University Policy, described in the Undergraduate catalog. Please meet with me at the beginning of the semester to discuss any issues.

Preparation and difficulty factor: You are expected to read assignments prior to class and be prepared to discuss the material or ask questions. Material marked * is advanced or supplementary.

Mental Problems: If you lose the vision, feel free to meet with me at any time.

		Course Outline	
Topics		Reading Assignments	Problems
1.	8/27	What is Finance? Overview of the Course	
2.	9/01	Money *GMI (Money) (Big picture of what finance involves. Don't get bogged down in this. It is marked *) A pyramid of trust	Handout
	9/03	NPV: Concepts and a brute force framework	RWJ Ch. 4: 60-71 (review?) 4:1-10,12
3.	9/08	NPV: Compounding issues Simple structures Calculators	RWJ Ch. 4:72-85 4:16,18-19,20-24, 29,33,36
	9/10	Intro to Financial Spreadsheets	4:40,41,48,49
4.	9/15	Bonds: Terminology	GMI (Bonds) 68-77 RWJ Ch. 20: 569-574 20:2
	9/17	Bonds: Basic Valuation	RWJ Ch. 5: 106-112 5:1,2,7,8 HW 1 due 9/17
5.	9/22	Bonds: More Terminology and Pricing a Risky Bond (default risk)	GMI (Bonds) 78-89 RWJ Ch. 20: 578-587 20:13,14
	9/24	Stock: Basics	GMI (Stock) 32-39 RWJ Ch. 5: 112-116 5:13,14, 18-22
6.	9/29	Stock: Growth and other inputs Where does r come from?	GMI (Stock) 40-47 RWJ Ch. 5: 116-119 5:25 CAPM handout
	10/01	Stock: Financial Information Growth Opportunities P/E Ratios	GMI (Stock) 56-65 RWJ Ch. 5: 119-122 5:28,29 RWJ Ch. 5: 125-127 *5:32 spreadsheet
7.	10/06	Options	RWJ Ch. 22: 618-623 HW 2 due 10/6 *GMI (options) 22.1-22.4,*22.5

10/08 Midterm 1 (covers material through 10/01)

<u>Wk</u>	<u>Date</u>	<u>Topics</u>	<u>Reading Assignments</u>	<u>Problems</u>
8.	10/13	FALL BREAK		
	10/15	What is Corporate Finance? Measuring cash flow for a corporation	RWJ, Ch. 1: 2-17 Ch. 2: 21-31	2: 5
9.	10/20	Cash flow of the firm (cont...)		2: 6,7
	10/22	Capital Budgeting	Ch. 7: 178-180	7: 1,2,6,8
10.	10/27	Baldwin Co. Inflation	180-186 189-193	7: 27
	10/29	Payback and IRR Rules Unequal lives (EAC) Unequal Risks	Ch. 6: Secs. 2 & 5 Intuition	6: 1, 7,*9
11.	11/3	What-if and break-even analysis using NPV. Real Options	Ch. 8: 213-219 Ch. 8: 223-224	8: 8,11,13,14 8: 19 HW 3 due 11/3
	11/5	An aside on the Cost of Capital The (AT)WACC	Ch. 12: 333-334	12: 12-14
12.	11/10	Choosing Capital Structure	Ch, 15: 402-403, 419-422 Ch. 16: (Summary points 1-3, 9)	15: 15
	11/12	Overview of Capital Market Theory	Ch 9: 233-234	HW 4 due 11/12
13.	11/17	Risk and Return Calculations (the risk premium concept)	Ch. 9: 235-249	9: 6,9,11,12
	11/19	Midterm 2 (covers material from 10/6 through 11/12)		
14.	11/24	More on Risk and Return Portfolio Theory – intuition	Ch. 10: 255	
	11/26	Thanksgiving Break		
15.	12/01	More Portfolio Theory - *formulas	Ch. 10: 287-288 (Summary of Ch. 10)	10: 4,*5,*6,*9
.	12/03	Money Management	GMI (Mutual Funds): 116-135	
16.	12/08	Summary and review		HW 5&6 due 12/8
	12/14	Optional Final Examination		8:00 – 11:00 AM