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|  | | **BUAD 306: Business Finance** |
| **Syllabus – Spring 2016** |
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**Course Description**

BUAD 306 is a fundamentals course in business finance. Effective financial decision-making is essential to the success of any business. Financiers, CFOs, treasurers, controllers, managers, or anyone involved in financial decision-making, must understand the concepts of finance and financial management in relation to economic developments and considering market uncertainties.

This course will introduce you to concepts, theories, and issues in finance, financial management and markets that will help you understand how financiers think, what the role of the financial decision-maker is, and how financial management concerns the management of modern enterprise. More specifically, you will learn how financiers break down components of financial problems, and how they then arrive at investment decisions as individual or corporate investors.

By the end of the semester, you should be familiar with financial vocabulary, understand aspects of financial theory, develop skills in financial computation, and appreciate the underlying financial mindset as well as incentives involved when solving problems of finance. You will learn how to determine risk, how to make financial decisions, and how to value an investment as a potential financial opportunity.

**Course Learning Objectives**

Through lecture, case analysis, worked samples, and by learning to apply appropriate mathematical and financial formulas and functions, you will be able to:

1. Understand basic types, goals, and implications of financial management and the role of the financial decision-maker.
2. Interpret financial statements and how they influence long-term planning and growth.
3. Understand the meaning of *time value of money* and how to evaluate the trade-off between dollars today and dollars sometime in the future.
4. Understand how firms decide to commit capital and its impact on cash flow (discounted cash flow).
5. Understand interest rates and bonds and realize how interest rates impact bonds.
6. Understand the different criteria used to evaluate proposed investments (e.g., net present value (NPV), profitability index, payback period).
7. Determine the cost of capital, and understand and apply the concepts of the *weighted cost of capital* (WACC).
8. Recognize and understand the elements of optimal capital structure, the effects of financial leverage, bankruptcy, and the role of taxes.
9. Understand the dynamics of behavioral finance and its influence on individual and corporate financial decision-making (e.g., the impact of heuristics).
10. Better understand news and current events through the lens of finance.

**Required Materials**

* *Fundamentals of Corporate Finance*, Eleventh Edition by Ross, Westerfield and Jordan. The Tenth Alternative edition is also acceptable.
* Calculator with financial functions: I recommend the Hewlett Packard 17bII+ for those who expect to continue in finance. Otherwise the Hewlett Packard 10bII has the functions you’ll need for this class, and is less expensive. Many graphical calculators, such as the TI-83, have built-in financial functions. You should bring your calculator to all classes and exams. *You will be extremely disadvantaged if you do not have your calculator during exams.* I will teach from the Hewlett Packard 17bII+.During exams you **will not** be allowed to use cellphone calculators, computers, or any other device that can communicate to other devices, so learning how to use the financial calculator is essential for success in the class.

**Prerequisites**: [ACCT 410](http://web-app.usc.edu/soc/20131/acct-410), [BUAD 250a](http://web-app.usc.edu/soc/20131/buad-250a), [BUAD 280](http://web-app.usc.edu/soc/20131/buad-280) or [BUAD 305](http://web-app.usc.edu/soc/20131/buad-305).

**Course Notes:** Copies of lecture slides and other class information are available through your Blackboard account.

**Grading Summary:**

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| Assignments | **% of Grade** |
| Exam 1  Exam 2 | 25%  25% |
| Exam 3 | 25% |
| Exam 4 | 25% |
| **TOTAL** | 100% |

Final grades represent how you perform in the class relative to other students. Your grade will not be based on a mandated target, but on your performance. Historically, the average grade for this class is about a B. Three items are considered when assigning final grades:

1. Your average weighted score as a percentage of the available points for all exams (the points you receive divided by the number of points possible).
2. The overall average percentage score within the class.
3. Your ranking among all students in the class.

**ASSIGNMENTS AND GRADING DETAIL**

Your grade is made up of your exam scores only:

1. **Exams.** All exams are closed book, closed notes. Financial calculators are allowed and recommended, but E-devices (tablet and laptop computers such as iPad, smartphones, other texting devices, etc.) are not allowed. You will be provided with a formula sheet. All exams will use the Scantron multiple-choice format. Students must provide their own pencils.

Any re-grade requests must be submitted to me in writing within one school week of the distribution of correct answers. *Any re-grading will encompass the entire exam.*

**The first 3 exams are 75 minute-timed exams held during regular class meeting times and in the regular class location. The final exam has 2 hours, and the detailed schedule can be found at https://classes.usc.edu/term-20161/finals/**

1. **Assignments.** There will be approximately 5 assignments posted to Blackboard during the course. **They will not be graded**. They are designed to provide practice material during the course. Answers to the homework will be posted online for students to evaluate their performance.

**Exam Absence Policy**

Students are required to be present for all four exams. If you are not able to take the exams on the dates and times specified in the detailed schedule, you should not take this class.

There will be no make-up exams. However, there are legitimate reasons for missing an exam. If you provide documentation of a serious medical problem or crime incident for missing one of the first three exams, the remaining exam scores will be re-weighted to accommodate the missing score. However, if you miss the final exam, I will be unable to assign a complete grade to you.

**Professionalism: Technology Policy, Session Attendance, and Classroom Demeanor**

*Technology.* Personal computers and wireless Internet are a key part of today’s technological culture, but they also can distract you from the class discussion and dampen participation. You may bring your laptops/iPads etc. to class for note-taking, but please refrain from browsing the Internet, updating your Facebook profile, playing games, instant messaging, shopping, etc. Although you may think you are being discreet, 90% of the time students engaging in such behavior give themselves away (through inappropriate facial expressions, lack of eye contact, out of sync typing, etc.). Use of computer in the classroom is a privilege. If you abuse this privilege, laptops may be banned from the classroom.

Please *turn-off* your phones, unless I ask you to use them.

*Attendance.* You are expected to attend *all* scheduled class sessions, to arrive *on time* and participate actively. Walking in late causes unnecessary disruption.

**Teaching Assistants**

The teaching assistant is listed at the top of the syllabus. The TA will hold regular office hours and can answers questions on the material during office hours or via email.

**Tutoring**

Tutoring is offered through the Marshall Office of Undergraduate Advising as a supplement to classroom instruction. Tutors are able to assist students in understanding difficult concepts, but tutoring sessions are only effective if students regularly attend class and actively engage in the process of thinking critically about the course content. Tutoring will begin on the Monday of the third week of classes. Students can choose to participate in group tutoring sessions or drop-in tutoring sessions. Most students will benefit from group tutoring in particular, as the purpose of group tutoring sessions is to review and discuss content covered in the previous and current week. For more information on tutoring, visit the Marshall Office of Undergraduate Advising in BRI-104 (213-740-0690), or <http://students.marshall.usc.edu/undergrad/advising/>

**MARSHALL GUIDELINES**

**Add/Drop Process**

In compliance with USC and Marshall’s policies classes are open enrollment (R-clearance) through the first week of class. All classes are closed (switched to D-clearance) at the end of the first week. This policy minimizes the complexity of the registration process for students by standardizing across classes. I can drop you from my class if you don’t attend the first two sessions. Please note: If you decide to drop, or if you choose not to attend the first two sessions and are dropped, you risk being not being able to add to another section this semester, since they might reach capacity. You can only add a class after the first week of classes if you receive approval from the instructor.

**Statement for Students with Disabilities**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me (or to TA) as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

**Statement on Academic Integrity**

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one’s own academic work from misuse by others as well as to avoid using another’s work as one’s own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A.

<http://www.usc.edu/dept/publications/SCAMPUS/gov/>

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/> Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

**Emergency Preparedness/Course Continuity**

In case of emergency, and travel to campus is difficult, USC executive leadership will announce an electronic way for instructors to teach students in their residence halls or homes using a combination of Blackboard, teleconferencing, and other technologies. Instructors should be prepared to assign students a "Plan B" project that can be completed at a distance. For additional information about maintaining your classes in an emergency please access: <http://cst.usc.edu/services/emergencyprep.html>

Please activate your course in Blackboard with access to the course syllabus. Whether or not you use Blackboard regularly, these preparations will be crucial in an emergency. USC's Blackboard learning management system and support information is available at [blackboard.usc.edu](http://blackboard.usc.edu/).

**Incomplete Grades**

In incomplete (IN) grade may be assigned due to an “emergency” that occurs after the 12th week of classes. An “emergency” is defined as a serious **documented** illness, or a **documented** unforeseen situation that is beyond the student’s control, that prevents a student from completing the semester. Prior to the 12th week, the student still has the option of dropping the class. Arrangements for completing an IN course should be initiated by the student, and negotiated with the instructor. Class work to complete the course should be completed within one calendar year from the date the IN was assigned. The IN mark will be converted to an F grade should the course not be completed.

**UNIVERSITY OF SOUTHERN CALIFORNIA GUIDELINES**

**Academic Conduct**

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences.  Please familiarize yourself with the discussion of plagiarism in *SCampus* in Section 11, *Behavior Violating University Standards* [https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions](https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/).  Other forms of academic dishonesty are equally unacceptable.  See additional information in *SCampus* and university policies on scientific misconduct, [http://policy.usc.edu/scientific-misconduct](http://policy.usc.edu/scientific-misconduct/).

Discrimination, sexual assault, and harassment are not tolerated by the university.  You are encouraged to report any incidents to the *Office of Equity and Diversity* [http://equity.usc.edu](http://equity.usc.edu/)  or to the *Department of Public Safety* <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>.  This is important for the safety of the whole USC community.  Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person.  *The Center for Women and Men* <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage [http://sarc.usc.edu](http://sarc.usc.edu/) describes reporting options and other resources.

**Support Systems**

Students whose primary language is not English should check with the *American Language Institute* <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students.  *The Office of Disability Services and Programs* [www.usc.edu/disability](http://www.usc.edu/disability)provides certification for students with disabilities and helps arrange the relevant accommodations.  If an officially  declared emergency makes travel to campus infeasible, *USC Emergency Information* [http://emergency.usc.edu](http://emergency.usc.edu/)will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

**COURSE READINGS/CLASS SESSIONS**

**Students should read the assigned chapter(s) BEFORE the associated lecture date.**

| **#** | **Date** | **Topic** | **Chap** |
| --- | --- | --- | --- |
| 1 | 1/11 **MW**  (1/12) **TR** | Introduction to Corporate Finance:  *What does a financial manager do? Forms of business organization, Goal of financial management, agency problem, Principal-agent problem, incentives* | 1 |
| 2 | 1/13  (1/14) | Financial Statements:  *Balance sheet, Income statement, Average versus marginal tax rates, Operating cash flow, Change in net working capital, Standardized financial statements, Sources and uses of cash, Ratio analysis* | 2, 3 |
|  | 1/18  (1/19) | No class (MLK Holiday) |  |
| 3 | 1/20  (1/21) | Long Term Financial Planning and Growth:  *Growth as a goal, Sales forecast, Pro forma statements, Asset requirements, Percentage of sales approach, External financing and growth, Internal growth rate, Sustainable growth rate* | 4 |
| 4 | 1/25  (1/26) | The Time Value of Money:  *Future Value and Compounding, investing for a single period, compound growth, lump sum versus payments, Present Value and discounting, present versus future value, determining the discount rate, single period present value, lump sum versus payments* | 5 |
| 5 | 1/27  (1/28) | Discounted Cash Flow Valuation:  *Future and present values of multiple cash flows, Valuation of annuities, Perpetual bonds, Future value of annuities, Annuities due* | 6 |
| 6 | 2/1  (2/2) | Discounted Cash Flow Valuation  *Effective annual rates, Calculating and comparing rates, EAR versus APR, Continuous compounding, Loan types, Amortization, Pure discount Loans, Interest only loans, Amortized loans* | 6 |
| **7** | **2/3**  **(2/4)** | **Review for Exam 1** |  |
|  | **2/8**  **(2/9)** | **Exam 1** |  |
| 8 | 2/10  (2/11) | Interest Rates and Bond Valuation:  *Bonds and valuation of bonds, Bond features, Interest rate risk, Default and credit risk, Re-investment rate risk, Bond indenture, Debt or equity? Long term debt, Government bonds, Corporate bonds, Mortgage bonds, Floating rate bonds, Zero coupon bonds* | 7 |
|  | 2/15  (2/16) | No class (President’s Day) |  |
| 9 | 2/17  (2/18) | Interest Rates and Bond Valuation:  *Bond ratings, Moody’s and Standard and Poor’s, Investment grade versus high yield (junk) debt, Real versus nominal rates, Fisher effect, Term structure of interest rates – Yield curve* | 7 |
| 10 | 2/22  (2/23) | Stock Valuation:  *Zero growth, Constant growth model, Shareholder rights, Common stock versus preferred stock, Cumulative versus non-cumulative, Dealers and brokers, NYSE, NASDAQ* | 8 |
| 11 | 2/24  (2/25) | Net Present Value and Other Investment Criteria:  *NPV estimate, Payback rule, Internal rate of return, Discounted payback, Profitability index, Capital budgeting, IRR versus NPV, Mutually exclusive projects, Nonconventional cash flows, NPV profile, Acceptance and rejection rules for each capital budgeting criteria* | 9 |
| 12 | 2/29  (3/1) | Making Capital Investment Decisions:  *Incremental cash flows, Pro forma statements, Side effects, Sunk costs, Opportunity costs, Net working capital, Financing costs*, *Depreciation (MACRS), Operating cash flow – alternative definitions, Setting a bid price* | 10 |
| 13 | **3/2**  **(3/3)** | **Review for Exam 2** |  |
|  | **3/7**  **(3/8)** | **Exam 2** |  |
|  | 3/9  (3/10) | No Class |  |
|  | 3/14  (3/15) | SPRING BREAK – No Class |  |
|  | 3/16  (3/17) | SPRING BREAK – No Class |  |
| 14 | 3/21  (3/22) | Some Lessons from Capital Market History:  *Returns through time for different asset classes, Historical record, Risk premiums, Variability of returns, Average versus geometric, Capital market efficiency* | 12 |
| 15 | 3/23  (3/24) | Return, Risk, and the Security Market Line  *Expected returns and variances, portfolio weights and expected returns, unexpected returns, Systematic and unsystematic risk, diversification* | 13 |
| 16 | 3/28  (3/29) | Return, Risk, and the Security Market Line:  *Systematic risk and beta, Portfolio beta, Security market Line, Reward to risk ratio, Beta and the risk premium, Capital asset pricing model (CAPM), Cost of capital* | 13 |
| 17 | 3/30  (3/31) | Cost of Capital:  *Cost of capital, Cost of equity, Cost of debt, Cost of preferred stock, Weighted average cost of capital (WACC), Divisional cost of capital, Project cost of capital* | 14 |
| 18 | **4/4**  **(4/5)** | **Review for Exam 3** |  |
|  | **4/6**  **(4/7)** | **Exam 3** |  |
| 19 | 4/11  (4/12) | Raising Capital:  *Financing Life Cycle of a firm, selling securities to the public, underwriters, IPOs, IPOs and underpricing, Costs of Issuing securities, Rights Offerings, Dilution, Issuing Long Term Debt, Shelf Registration* | 15 |
| 20 | 4/13  (4/14) | Financial Leverage and Capital Structure Policy:  *Capital structure question – Debt or equity financing? Effect of financial leverage, Cost of equity or debt? M&M proposition I&II* | 16 |
| 21 | 4/18  (4/19) | Financial Leverage and Capital Structure Policy:  *M&M proposition I and II with and without corporate taxes, Bankruptcy costs, Optimal capital structure, Bankruptcy liquidation versus reorganization* | 16 |
| 22 | 4/20  (4/21) | Dividends and Payout Policy:  *Cash dividends, stock dividends, Low payouts versus high payout ratios, tax and legal benefits, dividend policy, stock repurchase plans, stock splits, reverse splits* | 17 |
| 23 | 4/25  (4/26) | Behavioral Finance:  *Biases, Framing effects, Heuristics, Limits to arbitrage, Bubbles and crashes, Market efficiency and professional money managers* | 22 |
| 24 | 4/27  (4/28) | Review for the final exam |  |
|  |  | **Final Exam**  for day and time see: https://classes.usc.edu/term-20161/finals/ |  |