

VANDERBILT UNIVERSITY
Owen Graduate School of Management

Management 731
Managerial Finance

COURSE SYLLABUS

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Spring 2004

Course Description and Objectives:

This course contains a mix of financial theory, empirical research, and applications intended for both the users and the producers of financial information. The material is organized around the theme of asset valuation, ie. what constitutes value, and how it is estimated? My primary objective is to show that the value of an asset is determined by the level and the riskiness of its cash flows. By focusing initially on the first of these components, a number of techniques are presented for estimating the discounted present value of a series of known cash flows. The guidelines used to construct sensible cash flow forecasts will also be discussed. The estimation of risk is then examined within the context of modern portfolio theory, and formalized through the Capital Asset Pricing Model (CAPM) that explicitly quantifies the notion of risk. The role of capital structure, ie. the mix of debt and equity, will also be introduced to demonstrate the important effects that debt has on the risk borne by the firms shareholders. Finally, managers must be able to assess whether financial markets will offer a fair (ie. unbiased) price for the securities the firm intends to issue. The empirical evidence on this question (ie. the informational efficiency of capital markets) will be explored.

I will proceed on the assumption that you have mastered (are familiar with?) the material from your courses in microeconomics and statistics. If you are uncomfortable with this material, you should make a special effort to review it as soon as possible. A few examples of the specific topics that we will build on include:

Statistics:

- descriptive statistics (means, variances, covariances, correlations, etc.)
- properties of a normal distribution
- linear regression and hypothesis testing

Textbook:

The required text is Brealey and Myers Principles of Corporation Finance (7th Edition) and the associated study guide.

Course Requirements and Grading Policy:

The course requirements consist of 4 problem sets, five case analyses, a midterm examination and a final examination. The final grade will be calculated based on the following weights:

Problem Sets	20%
Case Writeups	20%
Midterm Examination	20%
Final Examination	35%
Class Participation	5%

You are encouraged to form study groups of your own choosing to work on the problem sets and cases. Indeed, the best way to learn this material is to try to solve the problems individually and then discuss the answers with your group members. All solution sets must be turned in at the beginning of class on the date they are due. Any submission received after that time will not be graded. This policy will be strictly enforced.

For the case writeups, you need to form a case group of at least four but no more than five students. All students should come to class prepared to discuss the case being presented, the assigned readings, and any relevant lecture material. Prior to the start of class, each group should prepare a two-page case writeup that summarizes the case. If you are not prepared to participate in the class discussion, please notify me prior to the start of class. Although I will not call on you that day, you also will not receive credit for that day's case writeup.

Honor Code:

(1) *Assignments:* The honor code requires that you submit your own written work for each of the assignments. Thus, while you are encouraged to work on the problem sets with other students, your answers may not be a reproduction (either mechanical or handwritten copy) of another student's submission.

(2) *Exams:* The midterm and final exams are "closed book", although you may bring one sheet of paper measuring 8.5" x 11" containing information on both sides of the page. You are not permitted to attach anything to the "crib sheet". Calculators are permitted, and are highly recommended! Naturally, no verbal or written communication is allowed during exams.

(3) *Material from Previous Years:* The use of notes, solutions, or any other material that were distributed for this course in previous years will be considered a violation of the honor code.

Please see us if you have any questions concerning the interpretation of the honor code as it applies to this course.

Office Hours:

Appointments can be scheduled by speaking with me after class or by e-mail. I encourage you to stop by if you are having difficulty with the material, but I expect you to have made an effort to resolve your questions beforehand by re-reading the text and your class notes, and/or asking someone in your study group.

Class Schedule

Thursday Jan 8

Class 1: **The Time Value of Money**
BM Chapter 2 (pp. 13-18, 23-26)

Friday Jan 9

Class 2: **The Time Value of Money**
BM Chapter 3 (pp. 33-40)
Problem Set 1 Distributed

Friday Jan 9

Class 3: **Applications of the Time Value of Money: Valuing Bonds and Stocks**
BM Chapter 3 (pp. 47-50)
BM Chapter 4 (pp. 59-64)

Saturday Jan 31

Class 4: **Evaluating Investment Criteria: Alternatives to Net Present Value**
BM Chapter 5 (pp. 91-111)
Problem Set 1 Due
Problem Set 2 Distributed

Saturday Jan 31

Class 5: **Issues in Capital Budgeting**
BM Chapter 6 (pp. 119-131)

Friday Feb 13

Class 6: **Project Evaluation Case**
Case: The Super Project, HBS 9-112-034
Problem Set 2 Due
Problem Set 3 Distributed

Friday Feb 28

Class 7: **The Determinants of Value**
BM Chapter 11 (pp. 287-303)
Problem Set 3 Due
Problem Set 4 Distributed

Friday Feb 28

Class 8: **Company Valuation Case**
Case: Pinkerton (A), HBS 9-291-051

Friday Mar 12

Class 9: **Risk, Return and the Capital Asset Pricing Model**

BM Chapter 7 (pp. 153-179)

BM Chapter 8 (pp. 187-203)

Problem Set 4 Due

Problem Set 5 Distributed with solutions

Friday March 26

Midterm Examination

Friday April 9

Class 10: **Estimating the Weighted Average Cost of Capital**

BM Chapter 9 (pp. 221-234)

Case: Marriott Corporation: The Cost of Capital (Abridged), HBS 9-289-

047

Note: Leveraged Betas and the Cost of Equity, HBS 9-288-036

Friday April 9

Class 11: **How Corporations Issue Securities**

BM Chapter 14 (pp. 377-396)

BM Chapter 15 (pp. 401-421)

Friday April 23

Class 12: **How Corporations Issue Securities**

Case: Amazon.com – Going Public, HBS 9-899-003

Friday April 23

Class 13: **Follow-on Financing**

BM Chapter 17 (pp.465-471)

BM Chapter 18 (pp.489-516)

Friday May 7

Class 14: **Follow-on Financing**

Case: American Debt Policy at UST Inc., HBS 9-200-069

Friday May 7

Class 15: **The Informational Efficiency of Capital Markets: Can Managers Exploit the Financial Markets?**

BM Chapter 13 (pp. 345-370)

Sample Final distributed