JOETTA FORSYTH
FINC 474.21
MANAGERIAL FINANCE
SUMMER 2015
MONDAYS
6:00PM – 10:00PM
WEST LOS ANGELES

SYLLABUS
Managerial Finance
FINC 474.21
SUMMER 2015

Mondays 6:00pm – 10:00pm
West Los Angeles Campus

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Introduction
Understanding financial principles is essential in the business world. Many of the activities of firms center around finance. How firms raise money, how they are valued, how they spend money, and their strategic decisions are all based on financial principles. Firms communicate using the language of finance. In addition, an understanding of financial principles is essential in order for individuals to successfully invest their own money in the complex environment of today.

Some of you may find this course challenging because of its emphasis on numbers. However, the mathematics of the course are not difficult and the rewards are great. Mastering the material will gain you entry into a whole new world of understanding business.

Course Description
The major aspects of the financial function of firms is covered. These include raising capital, allocating capital, and deciding the capital structure of the firm. Additional topics include the term structure of interest rates, options, working capital decisions, and the structure of financial markets.

Students are expected to have read the assigned material before class and are encouraged to speak during class. I will constantly ask questions to ensure that the students understand the material and to promote further understanding. I am also more than happy to make myself available outside of class for questions. I simply ask that students read the material before asking for additional help.

The first half of the course will be the most quantitative. In particular, it is especially important that students thoroughly understand the time value of money. Most of the rest of the course is based on the time value of money. I recommend that students place special emphasis on understanding this material. The reward will be learning the rest of the material much more easily.

Prerequisites: DESC 471, ACCT 472.
Course Objectives

Upon completion of the course, students will have a workable knowledge of the following topics:

1. Financial statement analysis
2. The use of financial ratios
3. The time value of money
4. How risk-free bonds are priced
5. The term structure of interest rates
6. Investment risk and return
7. Diversification
8. The Capital Asset Pricing Model
9. Stock valuation
10. Capital budgeting
11. Dividends
12. Capital structure
13. Working capital management
14. Business funding
15. The securities issuance process
16. Financial distress
17. Corporate governance
18. Ethical issues in finance
19. Preliminary view of options and hedging

Students will be able to use basic financial models to price securities, including bonds and stocks. They will be able to apply a basic capital budgeting model to value firm projects, calculate effective rates of interest on different types of loans, and perform basic financial planning. Students will also be able to recognize common misconceptions that are promoted about investing. Students will be able to understand articles in the Money and Investing section of the Wall Street Journal, and communicate using the language of finance. Finally, students will be able to identify ethical issues in finance. These can include fraud, violations of securities laws, the many conflicts of interest that arise in finance, failures of fiduciary duty, problems in corporate governance, and targeting the uninformed and poor to extract high profits.

Texts and Course Materials

The textbook for the course is Brealey, Myers, Marcus, Fundamentals of Corporate Finance, 8th edition.

Students should have a financial calculator. It should perform present value, future value, NPV, IRR, and mortgage functions. The Hewlett Packard 10BII is a good (and inexpensive) one. If you are planning on a career in finance or accounting, I recommend that you get the HP 12c Platinum which has more capabilities and is more durable. Of course it costs more. If you don’t mind only being able to use RPN (to be discussed below) you can get the regular 12c which costs a little less. I recommend using the 10BII or 12c even if you have a different financial calculator. The reason is that we will go over how to use the 10BII and 12c in class. If you have your own calculator and you are comfortable with the financial keys, then ok. However, if you do not have the same calculator and you are not familiar with the financial keys, you may get confused and fall behind during the time value of money, which could put you behind for the entire course. The following is always a problem at the beginning:
If you have the 10BII: You need to check that it is set to “END”. This is the default and it should be this way. However if you see “Begin” in the screen you need to reset it. You will need to reset the number of payments. The default is 12 payments per year. Set the payments to one payment per year (1, the orange key, then the P/YR key.) You can check the number of payments by hitting the orange key and then clear all. To see 9 places after the decimal, hit the orange key, the display key, and “9”. If you accidentally get set to the European system (periods for commas, and commas for periods) hit the orange key and the “./,” key.

If you have the 12c: You need to check that it is set to “END”. This is the default and it should be this way. However if you see “Begin” in the screen you need to reset it. To see nine decimal places, hit the orange key and the number 9. You need to set the calculator to arithmetic mode. Reverse Polish notation is more elegant (requires less key strokes and is faster) but to be consistent with the 10BII I will demonstrate using arithmetic mode. The 12c Platinum can switch back and forth. The regular 12c only has RPN. However, if you plan on pursuing a career in finance it may be worth the trouble to learn RPN using the manual. (It’s not very difficult.) I will also provide some assistance with RPN in class, but less.

A note is in order here. There are some financial calculations that cannot be solved easily by hand. This will happen rarely in the class, but there will be a couple of instances where this is true and a calculator will be needed. However, my past experience has been that some students may try to use the financial keys on their calculators as a crutch. Because of this, I will almost always expect students to write down the formulas that they use to get their answers rather than just relying on the financial keys. This is important because in presenting the formula, a student demonstrates that they understand the underpinnings of their calculations. There is little value in parroting how to get an answer by learning which buttons to press. In class, students will gain intuition for what the numbers mean. Students should learn how to use their calculators because once they are in the business world, their calculator will be a useful tool for speeding up calculations. A calculator will also come in handy during the exams. If the student gets the formula right, then the numeric solution that they derive should agree with the calculator. This can provide a handy double check.

All materials for the class will be posted in Sakai, including the Power Point slides used in class. Students have found it helpful to print out the slides and write notes on them during class. Students should remember to print out the material for the Time Value of Money Session and the Capital Budgeting Session.

We will begin each class with a discussion of the same day Wall Street Journal. I prefer that students try to discuss articles as of the same day print journal. However, if you wish to discuss an article in another publication or breaking news I won’t object. You can access the wall Street Journal for free. Go to the Pepperdine Library website at http://library.pepperdine.edu/. Click on “Access Databases and E-Journals.” Click on “F” and then “Factiva.” Note that the “Business and Finance” link is just a summary of the day’s events. You need to use the menu at the top to go to specific topics.

There will be a group project, assigned during Session 11 and due at the end of the course. Students can work in teams of up to three students. If you are dissatisfied with a team member’s contribution, please tell me before turning in the project. Understand that I will get the other student’s input on the situation. Students will also submit a log of time spent on the project as a group.
Grading

You can expect numeric problems and short essay questions on the exams. Please bring your own paper. The midterms are 1 hour, the quizzes are 32 minutes, and the final is 2 hours. I will let you throw out one exam. If you miss an exam you will receive a zero on that exam, and presumably it will be the one thrown out, unless you missed a quiz and got an F on a midterm. You cannot throw out the final. If you have a strong, legitimate excuse for missing the final, I will take a weighted average of all your other exams (with none dropped), and use that for your final grade. Alternatively, you can take an incomplete if I am teaching the class in the following trimester, and take the final the next trimester. I sometimes teach more than one section of the same class. If you cannot attend an exam, you may be able to attend the other section, and take the exam given at the other section. Be sure to notify me by email in advance, along with your reason.

The number of points for each question will correspond to how much time I think that you should spend on each question. In other words, if a question has 10 points, then I suggest that you spend ten minutes on the question. I do this in order to help students budget their time and decide how much detail to include. I curve exams. This means that you might get below 90% on one exam and still get an “A” while on another exam you get above 90% and do not get an A. I write too many exams to fine tune them so that 90% is exactly an A, etc. Therefore, I curve each exam based on what a typical raw point score is for the exam.

Do not give me multiple choice answers. On some questions, the hard part is deciding which formula to use. I have had students plug numbers into several formulas, hoping that one of them is correct. This demonstrates to me that you do not know the answer. I will pick the worst answer given, and grade based on that answer. The average course grade is typically near a 3.0 (which corresponds to the policy of the Accounting and Finance discipline), but it does vary somewhat. Your final course grade will typically be above your exam scores because the worst exam gets thrown out. However this does not have to be the case if your scores are similar or you missed an exam. If you finish the exam early, please do not stand right outside the door discussing the answers. Also, during breaks, please keep your voice down in the hallways. Other classes are in session.

Your grade will be based on the following:

<table>
<thead>
<tr>
<th></th>
<th>Dropping a Quiz</th>
<th>Dropping a Midterm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Points</td>
<td>Prorate</td>
<td>New Points</td>
</tr>
<tr>
<td>Group Project</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Participation</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Quizzes</td>
<td>32 each</td>
<td>-(152/124)</td>
</tr>
<tr>
<td>Midterms</td>
<td>120 (60 each)</td>
<td>-(152/124)</td>
</tr>
<tr>
<td>Final</td>
<td>152</td>
<td>152</td>
</tr>
<tr>
<td>Total Points</td>
<td>400</td>
<td>400</td>
</tr>
</tbody>
</table>
*Note, in the first column I am assuming that you drop a quiz. If you drop a midterm, I will prorate the quiz and midterm scores so that the total % for the quizzes and midterms is 38%. Occasionally it is better to drop a midterm rather than a quiz, even when the midterm grade is slightly higher. I will identify which exam to drop to achieve the maximum grade for a student -- the student need not worry about which exam to drop. Each exam is returned with a letter grade. For grading, a number is assigned for the letter grade, in the same way that GPAs are calculated. (See the Catalog or spread sheet to be discussed below.) For instance, an A+ will get assigned a 4.3, an A will get assigned a 4, an A- will get assigned a 3.7, a B+ will get assigned a 3.3, etc. After the final weighted average is taken, you are given a course grade that is closest to your weighted average. For instance, if your weighted average is 3.84, this is closest to a 3.7 and a course grade of A- is given. You must get a passing weighted average grade on the exams except for the one that was dropped to pass the class (excluding participation and the group project). For instance, if you drop a quiz, in order to get above an F in the course, the weights for the exams would be 32/304 for the quiz, 60/304 for each midterm, and 152/304 for the final. If the weighted average for the exams is at or above a .5 then the above chart is used to calculate the grade. If the weighted average is below a .5 then a grade of F is assigned for the course.

I will post a spread sheet that calculates grades in Sakai. You can plug in actual or hypothetical scores, and see what your final course grade will be. You must fill in all the scores, or the software assumes an F for blank scores. You can also look at the spread sheet to see the mechanics of how your grade is calculated.

Some classes will be given online. Participation scores for those classes will depend on written participation reports. For in person classes, I strongly encourage students to ask questions and participate. More specifically, the participation grade for in-person classes will be based on how a student contributes to the understanding of the entire class in addition to providing evidence of completing the course evaluation. There are two kinds of participation. One is where the student asks questions for their own benefit or to clear up confusion. I strongly encourage this kind of participation, although it is neutral to your participation grade. Your participation grade increases according to your contribution to the class. For instance, quality participation could include an insightful question that improves the understanding of other students. Another example would be relating the material being presented to a business situation from your background in an insightful way. Students who disrupt the class, show up late, carry on side conversations during class, or display a negative attitude will be graded accordingly. Students who are not naturally inclined to speak in class can use our Wall Street Journal discussions as a way of participating. Just pick an article ahead of time to bring up in class, along with some comments that you would like to make on the article. This will reduce the stress of participating. I am generally understanding if a student is late because they got hung up at work. Please do not race down the freeway, or text me that you will be late while driving! Be sure to print out the confirmation that you completed the course evaluation, or email me a screen shot of the confirmation.

Studying

Problem Sets and Sample Exams will be provided on Sakai. The problem sets have full solutions in the back, and will not be turned in. The sample exams are all of my old exams. If you would like to know what my exams are like, you can go take a look. Typically they only have the final number for the numeric problems, and no answer for essay questions. As a matter of class etiquette, please do not be a “good citizen” and provide full solutions for the sample exams to the entire class. This is counterproductive. I specifically do not provide solutions for the sample exams to encourage students to figure out the problems for themselves. I have often had students tell me “I thought I knew the material but I went blank on the test.” I was surprised once when a class did very poorly on the first exam. Then
I learned that a student had passed out the answers to all of the sample exams, and everyone had just read the answers and not worked through the problems for themselves. If you suffer through figuring out the problems yourself (or with a group), you won’t get stumped on the exam.

I cannot emphasize this enough. **I have the study materials set up in a very specific way to make the most effective use of your precious study time. If you study in the way that I suggest you will do much better.**

**For Financial Ratios:** The financial ratios have to be memorized (this is where most of the memorizing in the class will be.) Practice them regularly, including plugging in numbers (once you have gone through them a few times it shouldn’t take long.) Go straight to the sample exams. Even for those exams you don’t have time to practice, I recommend reading through on the computer which ratios I suggest for the answers. The hardest part about financial ratios is often figuring out which ratio is the correct one to use.

**For The Time Value of Money:** Work through the Word document and corresponding spreadsheet entitled “Working With Annuities.” Then do the sample problems. (There are full solutions in the back so that you can look up how to answer the problem if you get stuck.) Finally, work on the sample exams which only have the final answer.

**For Other Problems:** **Do the sample problems first.** They have the full solutions in the back and will get you kick-started. Then go to the sample exams. For theory sections of the course, you will get short essay questions on the exams. In the sample exams the essay questions don’t have the answers. Therefore, it is particularly important to read the book carefully, and take careful notes in class. If you are unsure of something, then ask me.

If you find you are spending too much time trying to figure out an answer on a sample exam, I will be happy to work the exam question with you, or reply to an email asking for help. Please paste the question that you are referring to into the email. I sometimes have trouble locating the question otherwise. Also, please send a phone number in your email – I may call you. I will also be happy to help organize students into groups to study.

By the way, **cramming doesn’t work.** You absolutely have to keep up each week. If you don’t, you will be wasting your time in class since you will need the previous week’s material to understand the current material -- you will sit in class lost for four hours. It is essential that you set aside time each week to go over the week’s material. It is also not possible for mere mortals to cram weeks of finance in one week before the exam. It won’t all go in. This is where setting aside regular time each week with a study group can help. **I routinely have students that have gotten straight As across past courses fail the first quiz. If you do not sit down and study you are in for a shock.** There is a very high correlation between study time and grades. Finance is a technical subject, and the only way to learn it is to work problems.

**Please note that I have been making substantial changes to the course over the last several trimesters, and the sample exams are my actual old exams. Therefore the sample exams will not fit exactly with the exams that you can expect to take. I will tell you in class where you can expect the class exam to be different from the sample exams. However, I still expect the sample exams to be very helpful for preparing.**
I encourage you to work on the problem sets and sample exams in groups. Along with study time, the best predictor or whether a student will do well is if they are part of a study group. This course is primarily exam based, and requires discipline. Having a study group that meets at the same time each week helps provide discipline. It is an easy thing to set aside studying because a paper is due, etc. But then the price is paid when it is time for the exam. Being in a study group will keep you on track and up to speed. It is also very true that more heads are better than one.

**Attendance Policy**

Attendance for in-person classes is part of your participation grade. If you cannot attend, please send me an email with an explanation, preferably in advance. Please do not tell me verbally, call, or have a friend relay a message. I will forget. Legitimate reasons such as a business trip, family emergency, major family event such as a funeral or wedding, or illness will be excused. It will take approximately four classes with very strong participation to make up for an unexcused absence. If a student shows up for all classes and does not speak in class, they can expect a D- in participation. If a student has one or more unexcused absences and does not speak in class they will receive a failing participation grade. The average participation grade in the class is typically somewhere near a 3.0 but it can vary from this. If I am teaching another section, you may make up a missed class by attending the other section if you notify me with a valid excuse by email **in advance**. I will post the other section’s schedule in Sakai. If you do not attend the first day of class you must have a preapproved, excused absence or you will be dropped. If you have to miss an in-person class, I may have online materials that you can view. Please discuss this with me, preferably in advance.

**Sakai**

I will post the following on Sakai, hopefully by at least the second week of the course. The materials for the first day of class will be posted ahead of time.

- The course syllabus
- Links for online class materials
- The other class schedule: If there is another section that I am teaching.
- PowerPoint slides: Their purpose is to serve as an outline for class discussion. Students like to print them out and take notes during class.
- The formula sheet: I discuss this below.
- Problem Sets: See my discussion above.
- Sample Exams: See my discussion above.
- Materials for class: Print them out before the indicated class and bring them.
  - Financial Ratio Documents (2)
  - Time Value of Money (amortization schedule)
  - Capital budgeting spreadsheet: print out the word document, and download the spreadsheet into your laptop. Bring your laptop to class.
  - A spreadsheet for calculating your grade: See above
  - Goodies: For your own amusement.

**Formula Sheet**

I will post the formula sheet on Sakai. I strongly encourage you to print it out, take notes on it, and become very familiar with it. If an equation in the PowerPoint slides has a box around it, then it will be on the formula sheet. Most equations are. Exceptions are the financial ratios, which must be memorized, along with several simple time value of money equations. Students must also memorize the
six line items for capital budgeting. The exams are closed book, except that I will pass out a clean version of the formula sheet that is identical to the document on Sakai.

Miscellaneous

PLEASE DO NOT WEAR STATIC GUARD. The professor is severely allergic to it (complete with having her throat close off) and class will be dismissed early! Static guard is a spray from the can product to prevent static cling in clothing. It is often used to prevent static on people who work with computer equipment. If you work with electronics and are asked to spray something on your clothing, it is an equivalent to Static Guard. It is also frequently used in cold climates where static cling in clothing is more of a problem (especially for women). If you do have to use it, please change clothing before coming to class, or take a class with a different professor.

I do not typically allow the recording of class sessions. I may consider it under special circumstances. If recording is allowed, I will inform the class so that everyone is aware they are being recorded. Students are not allowed to electronically post in any way recordings of the class. No exceptions will be made. This promotes honesty of opinion, especially when discussing ethical issues.

When you send me email, be sure to put the course name and your name in the subject section. For example, “BSM 474 WLA, John Doe” If you don’t, I may delete the email without reading it. I get a lot of junk email, often with viruses. Also put in a unique reference to the subject of the email in the subject section. I save emails, and this makes it easier to do so.

If you find that you are struggling, do not let time go by. Come see me as soon as possible. I can make suggestions and find resources to help. There are tutors who are very familiar with the class, and who have been quite helpful to struggling students.

Thank you kindly to those of you who wish to express your appreciation at the end of the class with a gift, but I do not accept gifts. The best gift that I can receive is to get detailed comments on the evaluations about how I can improve the class.
University Code of Ethics

Please see the discussion of the student code of conduct in the 2014 - 2015 Academic Catalog: http://catalog.bs.hool.pepperdine.edu/content.php?catoid=3&navoid=109#Student_Code_of_Conduct. I take academic dishonesty very seriously, and I am not the slightest bit hesitant about failing a student for any infraction. Honesty is always the best policy.

Conduct

This course may require electronic submission of essays, papers, or other written projects through the plagiarism detection service Turnitin (http://www.turnitin.com). Turnitin is an online plagiarism detection service that conducts textual similarity reviews of submitted papers. When papers are submitted to Turnitin, the service will retain a copy of the submitted work in the Turnitin database for the sole purpose of detecting plagiarism in future submitted works. Students retain copyright on their original course work. The use of Turnitin is subject to the Terms of Use agreement posted on the Turnitin.com website. You may request, in writing, to not have your papers submitted through Turnitin. If you choose to opt-out of the Turnitin submission process, you will need to provide additional research documentation and attach additional materials (to be clarified by the instructor) to help the instructor assess the originality of your work.

The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

- Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
- Forgery, alteration, or misuse of University documents, records, or identification.
- Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
- Interference with the academic or administrative process of the University or any of the approved activities.
- Otherwise unprotected behavior that disrupts the classroom environment.
- Theft or damage to property.
- Violation of civil or criminal codes of local, state, or federal governments.
- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.

Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:
Dismissal – separation of the student from the University on a permanent basis.
Suspension – separation of the student from the University for a specified length of time.
Probation – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.”

Policy on Disabilities

Assistance for Students with Disabilities

The Disability Services Office (DSO) offers a variety of services and accommodations to students with disabilities based on appropriate documentation, nature of disability, and academic need. In order to initiate services, students should meet with the Director of the DSO at the beginning of the semester to discuss reasonable accommodation. If a student does not request accommodation or provide documentation, the faculty member is under no obligation to provide accommodations. You may contact the Director of Disability Services at (310) 506-6500. For further information, visit the DSO Web site at: http://www.pepperdine.edu/disabilityservices/.
<table>
<thead>
<tr>
<th>Schedule of Classes</th>
<th>FINC 474.21 Summer 2015</th>
<th>WLA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Session</td>
<td>Topic</td>
</tr>
<tr>
<td>May 4</td>
<td>1</td>
<td>Introduction and Overview, The Financial Environment</td>
</tr>
<tr>
<td>11</td>
<td>2</td>
<td>Financial Statement Analysis and Understanding Cash Flows</td>
</tr>
<tr>
<td>18</td>
<td>3</td>
<td>The Time Value of Money</td>
</tr>
<tr>
<td>June 1</td>
<td>4</td>
<td>The Time Value of Money (continued) Bond Pricing</td>
</tr>
<tr>
<td>***After a holiday</td>
<td>5</td>
<td>Quiz (Through TVM) Term Structure of Interest Rates Risk &amp; Reward</td>
</tr>
<tr>
<td>15</td>
<td>6</td>
<td>Risk &amp; Reward (continued) CAPM</td>
</tr>
<tr>
<td>22</td>
<td>7</td>
<td>Midterm 1 (Through term structure of interest rates) Estimating Beta &amp; the Pricing of Stock</td>
</tr>
<tr>
<td>29</td>
<td>8</td>
<td>Capital Budgeting and Financial Forecasting</td>
</tr>
<tr>
<td>July 6</td>
<td>9</td>
<td>Quiz (Through Capital Budgeting) Cost of Capital &amp; Project Analysis Capital Structure</td>
</tr>
<tr>
<td>13</td>
<td>10</td>
<td>Dividend Policy Working Capital Management</td>
</tr>
<tr>
<td>***Online</td>
<td>11</td>
<td>Midterm 2 (Through capital structure) Short Term Financial Planning</td>
</tr>
<tr>
<td>27</td>
<td>12&amp;13</td>
<td>***Corporate Financing Online (complete this before class) Corporate Financing (continued in class) Options and Short Sales</td>
</tr>
<tr>
<td>Aug. 3</td>
<td>14</td>
<td>Final Exam (All Material)</td>
</tr>
</tbody>
</table>