

# FINA 6A35, Managerial Finance

## Fall 2018, First Half-Semester

Section 01, TTh 1:00pm-2:30pm

Section 02, TTh 2:30pm-4:00pm

## Prof. Paul Povel

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This is the syllabus for this course. This page can be found through the University of Houston's "BlackBoard Learn" at <http://www.uh.edu/blackboard>. It may be easier to bookmark this page directly. In fact, you should use this web site, only, since I do not plan on using BlackBoard much. A PDF version of this syllabus can be downloaded [here](#).

### Course Overview:

This is the introductory Finance course. The aim is to acquaint you with fundamental approaches to valuation, focusing on "value" as being determined by (a) future cash flows and (b) the riskiness of these future cash flows. You will learn why this is a good way of thinking about "value", and you will learn how to measure the riskiness of those future cash flows correctly, and how that is incorporated in valuation techniques. We will talk about bonds and stocks, and their valuation. We will also discuss various capital budgeting techniques, including the NPV ("Net Present Value") approach and learn how to use them to decide whether investments or projects are worth undertaking, or how to choose from several investment opportunities.

We will develop the ideas and tools, and we will apply this knowledge when working on in-class problems and homework assignments. A lot of this work is technical (requiring calculations, usually with spreadsheet software), but a lot of it requires that you apply experience and common sense. So "valuation" often seems more like an art than a science. Therefore, I will require that (1) you use the techniques correctly, and that (2) you explain and justify assumptions and non-obvious decisions in your work.

This course is essential for anyone planning a career in business: You absolutely need to know how to quantify the consequences of alternative decisions, how to measure whether they add or destroy value, and how much. These techniques are required for the capital budgeting process at many companies.

### Course Outline

The course outline is only **tentative**; depending on the progress that we make, it may change.

<u>Week, day</u>	<u>Topics covered and to be prepared</u> (numbers refer to sections in the lecture notes)
Week 1: Tue, Aug 21, 2018	1: Overview
Week 1: Thu, Aug 23, 2018	2: Time value of money calculations
Week 2: Tue, Aug 28, 2018	2: Time value of money calculations
Week 2: Thu, Aug 30, 2018	2: Time value of money calculations
Week 3: Tue, Sep 04, 2018	2: Time value of money calculations
Week 3: Thu, Sep 06, 2018	3: Valuing bonds
Week 4: Tue, Sep 11, 2018	4: Valuing stocks
Week 4: Thu, Sep 13, 2018	5: Capital Budgeting Techniques
Week 5: Tue, Sep 18, 2018	5: Capital Budgeting Techniques
Week 5: Thu, Sep 20, 2018	5: Capital Budgeting Techniques
Week 6: Tue, Sep 25, 2018	5: Capital Budgeting Techniques
Week 6: Thu, Sep 27, 2018	5: Capital Budgeting Techniques
Week 7: Tue, Oct 02, 2018	6: Risk and return; the CAPM model
Week 7: Thu, Oct 04, 2018	6: Risk and return; the CAPM model
Week 8: Tue, Oct 09, 2018	<a href="#">Final Exam, 1-3:30PM</a>
Week 8: Thu, Oct 11, 2018	NO CLASS!

### **Required knowledge:**

Computer skills: This course involves some number-crunching, and spreadsheet software will come in extremely handy. In fact, you will be at a considerable disadvantage if you are not familiar with spreadsheet software. If you do not regularly use spreadsheet software, this is the ideal time to learn how to use it.

Finance, Accounting: I will assume that you have very limited pre-existing knowledge. Some of you know Finance already, either because you took finance classes before or because you have worked in finance positions. That will help you, but hopefully you will also learn new things in this course, or learn to see things differently. If you don't know much about finance, don't worry, you'll get into it quickly. The important thing is not to let those with pre-existing knowledge do your work for you. In order to learn the material, you must actively engage with it.

Maths: We will not do anything difficult in this course, but it would be good if you are comfortable dealing with numbers and performing simple calculations.

### **Equipment**

You will need a calculator in the exams, and you will sometimes find it useful in class. A basic scientific calculator that does powers is fine. Large-display calculators with "parentheses" buttons and "back" buttons are helpful. If you have a financial calculator, you can use it in this class. A financial calculator is neither required nor recommended. You will find many practitioners using one, but this is

more of a quaint tradition --- the spreadsheet software on your smartphone or tablet is much more powerful and convenient.

Two remarks on exams. First, no computers are allowed. Second, you may use a financial calculator, but you must nevertheless convince me that you know what you are doing: just writing down a result or the variables you keyed in is *not* convincing; you should write down *both* the correct formula *and* the correct result. If your answer seems unconvincing, you won't get full credit, even if the numbers are right.

I assume that you have access to a computer with spreadsheet software. I also assume that you have access to the web, and that you regularly check your email.

### **Readings and other materials**

Required readings (lecture notes) are in the course packet, available as PDF files (for free) from this course's "BlackBoard Learn" page (at <http://www.uh.edu/blackboard>).

The lecture notes have gaps where you should add your own comments, answer questions, take down details of calculations, etc. The lecture notes help me structure the course, and they make your life easier because you do not have to write down everything. They will also make it easier for you to compare your notes with other students', or to ask me clarifying questions.

You should bring the current chapters of the lecture notes to every class. **You should print out the pages and use them to take notes with a pen.** Just bringing a notebook to class won't work, unless it is a tablet with a digitizer pen (so you can write onto the screen).

Additional material will be handed out during the semester. It will also be downloadable from the [Materials page](#).

### **Textbooks:**

There are three standard MBA textbooks on Corporate Finance, that are used in all good MBA programs. I believe that out of those three, this one is best suited for this introductory course:

- [Principles of Corporate Finance](#),  
by Richard A. Brealey, Stewart C. Myers, and Franklin Allen,  
12th edition, 2017  
Or: buy the [11th edition \(2014\)](#), used.

This textbook is usually sold as a package, with access to websites with practice problems or other things included in the package. (Access to online practice problems may be a good idea, but I won't use that feature in this course.) Judging from past experience, the UH bookstore charges high prices for textbooks. You should be able to get this book *much* cheaper if you look for it online.

The authors made some improvements in the 12th edition, compared with the 11th edition. However, the 11th edition was fine, and you should be able to save a significant amount of money if you buy a "gently read" copy of the 11th edition. You should be able to get the 11th edition online for less than 1/5 of the price of the latest edition. Note that publishers change ISBN numbers every year, to confuse

the second-hand market. So there can be several ISBN numbers for one book, and more for the various packages. Also, international editions of US textbooks can look slightly different (different cover, monochrome print, paperback), but they can be much cheaper. There also exists a loose-leaf version of the book, again, cheaper than the book.

It is a good idea to have a textbook, so you have a second source of information, and, more importantly, so you have additional practice problems (the end-of-chapter problems) to work on and think about. However, I won't insist on you buying a textbook, and I won't assign problems from the textbook.

We will cover less than half the chapters of this book. However, if you plan to take more corporate finance electives, many of the remaining chapters will be covered there.

The two alternative, also very good standard corporate finance textbooks:

- [Corporate Finance](#), by Jonathan Berk and Peter DeMarzo, 4th edition, 2017. A "gently read" copy of the 3rd edition (2014) may be your preferred investment.
- [Corporate Finance](#), by Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, 11th edition (2016). A "gently read" copy of the 10th edition (2013) may be your preferred investment.

In the past, students also tried to find information on the web. That tends to be a bad idea. If you are unsure about something, gathering more information is less useful than thinking about what exactly is unclear, and why. Often, you will be able to answer your own question very quickly; if not, you can ask me a very precise question. That's "learning". All the information you need is in the course packet and the class notes. You need to "digest" it, and that requires hard work.

### **Accessibility Statement:**

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.

### **Classes**

Class	When	Where
Section 01, Class # 17806	TTh 1:00pm-2:30pm	<a href="#">Melcher Hall, MH 112</a>
Section 02, Class # 17807	TTh 2:30pm-4:00pm	<a href="#">Melcher Hall, MH 112</a>

Class participation is mandatory. The course is a mix of lecture and discussion, including problems we discuss together in class. I expect students to come to class prepared for active participation in both situations.

To make the most efficient use of limited class time, students who miss a class or are late are responsible **themselves** for getting notes, assignments, and announcements from their classmates.

Handouts may be obtained from me outside of class, or you can download them from the [Materials page](#).

### **Classroom Etiquette**

Please remember to turn off your cell phones, in particular during exams.

If you bring your notebook or tablet into the classroom, please act in a mature fashion: no emailing, surfing of web pages, etc., i.e., activities that distract you and (much more importantly) other students sitting near you. As I explain below, there is a participation component in the overall course grade --- violating this no-internet rule will *seriously* reduce your participation score.

### **News**

If something should come up (e.g. schedule changes, corrections of materials, announcements, etc.) I will let you know by email, and I will post messages on the [News page](#).

Note: Several email providers are treating emails from ...uh.edu domains as suspicious and either delay or bounce such emails. If you are forwarding your uh.edu email to yahoo.com or aol.com or hotmail.com or outlook.com, please switch to a different provider. There may be more problematic email providers I am not aware of. If you continue to use such email addresses, you will make it impossible for me to get in touch with you.

### **Getting in touch with me**

The easiest way will be to use email: [povel@uh.edu](mailto:povel@uh.edu) . My office phone number is (713) 743-4759. My office is Melcher Hall 230G.

Since you have lots of classes, I won't have scheduled office hours. You can get in touch with me when you have time, by email or in person. Many questions can be answered right after class. But please do not come to my office right before class, when I am busy preparing for class. (I also teach a class on Wed evenings, so I'll be busy preparing on Wednesdays, 3-6pm.)

It is important that you contact me immediately if you are uncertain or worried about your performance: I may be able to give you feedback on your performance, what you can improve, etc. The sooner problems are identified, the better.

### **Teaching Assistant**

Teaching Assistant: T.B.C. He/she will assist me in grading homework assignments. He/she will not hold any review or tutoring sessions. If you have questions, discuss them with your teammates or ask me.

### **Homework Assignments**

There will be homework assignments, to be completed independently from other students. I will distribute the assignments in class, and I will expect legible and well-explained written answers from

you, at the start of the class on the due date. (I may require you to submit spreadsheets instead of written answers; those spreadsheets must be "legible," too!)

## **Exams**

There will be one [final exam](#). It will be closed-book / closed notes. However, you are allowed to bring a "cheat-sheet" with notes, written on one side of one sheet (8.5"x11"). I regard these "cheat-sheets" as helpful tools for studying: You should carefully put together material that you feel will help you in the exam; that will help you structure the material, recall essential formulas and procedures, etc. You should start working on your "cheat-sheet" from the first class, and you should plan to re-write it often.

You should bring a calculator. If you decide to use a financial calculator, make sure you know how to operate it; see above, under [Equipment](#).

## **Grading**

Your performance will add up to an overall score, which will then be translated into a course grade. I grade on a curve, so I cannot tell you ex-ante what the cutoffs for an A, an A-, etc. are going to be. Your overall score is computed as follows:

65%	Final exam
25%	Individual homework
10%	Participation

Please take class participation seriously, not only because it affects your grade, but because it helps you learn. The purpose of grading class participation is to encourage you to take active control of your learning: the more involved you get and the better prepared you are, the more you will benefit from this class. (Note, however, that simply taking up "air time" without really making a contribution will not improve your participation score.)

Questions about grading: Requests for a regrade must be made in writing within two weeks of the time the graded work is returned, and must clearly and specifically explain where and why you think you were graded incorrectly.

## **Counseling and Psychological Services (CAPS)**

Counseling and Psychological Services (CAPS) can help students who are having difficulties managing stress, adjusting to the demands of a professional program, or feeling sad and hopeless. You can reach CAPS ([uh.edu/caps](http://uh.edu/caps)) by calling 713-743-5454 during and after business hours for routine appointments or if you or someone you know is in crisis. Also, there is no appointment necessary for the "Let's Talk" program, which is a drop-in consultation service at convenient locations and hours around campus ([uh.edu/caps/outreach/lets\\_talk.html](http://uh.edu/caps/outreach/lets_talk.html)).

## **Academic Misconduct**

Academic Honesty: The University of Houston's Academic Honesty Policy is strictly enforced by the Bauer College and by this professor. A discussion of the policy is included in the UH Student Handbook, <http://www.uh.edu/dos/studenthandbook/>. It is your responsibility to fully understand and

comply with all principles contained within this Handbook. Please make sure you understand this policy and in particular, you understand the meaning of plagiarism.

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Last update: March 8, 2018