

Syllabus for FINA 6A35 Managerial Finance

Fall 2024, First Half-Semester

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

Prof. Paul Povel

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.

Note: *The course outline contains changes marked in red ink: As most of you will be at the [NBMBA Expo](#) on Sep 19th, we should cancel that class; and to make up for the lost time, we could start class early (by 20 minutes) four times.*

<u>Week, day</u>	<u>Topics covered and to be prepared</u> (numbers refer to sections in the lecture notes)
Week 1: Tue, Aug 20, 2024	1: Overview
Week 1: Thu, Aug 22, 2024 Class starts 20 min. early, at 12:40pm	2: Time value of money calculations
Week 2: Tue, Aug 27, 2024 Class starts 20 min. early, at 12:40pm	2: Time value of money calculations

<u>Week, day</u>	<u>Topics covered and to be prepared</u> (numbers refer to sections in the lecture notes)
Week 2: Thu, Aug 29, 2024 Class starts 20 min. early, at 12:40pm	2: Time value of money calculations
Week 3: Tue, Sep 03, 2024 Class starts 20 min. early, at 12:40pm	3: Valuing bonds
Week 3: Thu, Sep 05, 2024	4: Valuing stocks
Week 4: Tue, Sep 10, 2024	5: Capital Budgeting Techniques
Week 4: Thu, Sep 12, 2024	5: Capital Budgeting Techniques
Week 5: Tue, Sep 17, 2024	5: Capital Budgeting Techniques
Week 5: Thu, Sep 19, 2024 ⇒ No class!	No class → Attend NBMBAA Expo.
Week 6: Tue, Sep 24, 2024	5: Capital Budgeting Techniques
Week 6: Thu, Sep 26, 2024	6: Risk and return; the CAPM model
Week 7: Tue, Oct 01, 2024	6: Risk and return; the CAPM model
Week 7: Thu, Oct 03, 2024	6: Risk and return; the CAPM model Q&A, extra practice problems, etc.
Week 8: Tue, Oct 08, 2024	Final Exam, 1:15-3:45pm
Week 8: Thu, Oct 10, 2024 ⇒ No class!	No class → Maybe: final exam SCM 6A01

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. (In class, I will use *Microsoft Excel*.) Furthermore, you will be required to use the university's "Learning Management Software", [Canvas \(canvas.uh.edu\)](https://canvas.uh.edu).

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.

Time and effort: This course requires significant work outside of class. If you cannot make time available each week for reviewing lecture notes and working on problems, you will struggle and get very little out of this course.

Equipment

I will assume that you have access to a computer with spreadsheet software (you have access to Microsoft Office 365 through your @cougarnet.uh.edu account, see [this webpage](#)). I will also assume that you have access to the web, and that you regularly check your email.

You will need a calculator during the final exam. 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 (note: a financial calculator is neither required nor recommended).

Readings and Other Materials

Lecture notes:

Lecture notes are available as PDF files (for free) from the *Modules* page. 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 print out the pages and use them to take notes with a pen.*** Just looking at the lecture notes on a regular screen will not be enough, unless it is a tablet with a digitizer pen that allows you to write onto the screen.

Textbooks:

There is ***no required textbook***. Some of you you may want to have a textbook anyway, as a second source of information, and, more importantly, for additional practice problems to work on and think about. But I won't insist on you buying a textbook, and I won't assign problems from any 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, Franklin Allen, and Alex Edmans, 14th edition, 2022.
Or: buy the [13th edition.](#) (2019).

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 have made only minor improvements in the past few years. You should be able to save a significant amount of money if you buy a "gently read" copy of the 13th or 12th edition (those earlier editions had only three of the four co-authors). 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 are often much cheaper. There also exists a loose-leaf version of the book, again, usually cheaper than the book (because they are difficult to re-sell).

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.

There are two alternative, also very good standard corporate finance textbooks:

- [Corporate Finance.](#), by Jonathan Berk and Peter DeMarzo, 5th edition, 2020.
Or: buy the 4th edition (2017).
- [Corporate Finance.](#), by Stephen Ross, Randolph Westerfield, Jeffrey Jaffe, and Bradford Jordan, 13th edition (2022).
Or: buy the [12th edition.](#) (2019).

Other material:

Additional material will be made available during the course. It will be downloadable from the *Modules* page.

Internet sources:

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.

Any graded work that you submit in this course (individual assignments, group assignments, quizzes, exams) must be your own work. You are not allowed to submit work that partly or entirely consists of, is based on, or relies on material created by Generative AI sources (for example, OpenAI's ChatGPT or GPT-4, Google's Bard, Bing AI). Any violations of these rules will be treated as [Academic Misconduct](#).

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 [Justin Dart, Jr. Student Accessibility Center](#) and present approved accommodation documentation to their instructors in a timely manner.

Classes

Class	When	Where
FINA 6A35 Sec 01, Class # 16105	Tu,Th 1-2:30PM	CBB 412

Class participation is mandatory. The course content is not straightforward to understand and master, so this course will require you to interact with the material. The best way to interact with the material is by participating in class and asking questions whenever they arise. Other students will also benefit if you ask helpful questions. In addition, you should plan to spend time outside of class revising notes and working on practice problems, and if new questions arise, to ask them at the next opportunity.

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.

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 post “announcements” on *Canvas*, and you will receive automated emails with the announcements.

Getting in Touch With Me

The easiest way will be to use email: povel@uh.edu.

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.

There is a *Canvas* "Discussions" page, where you can post questions and answer or comment on others' questions. If you have a question that you think is of general interest, you may want to post it there, so others benefit from your effort. Trying to answer others' questions will also be a useful exercise. Note, however, that there are no requirements to post or participate in discussions (see also the explanations about [grading](#), below).

Teaching Assistant

Teaching Assistant: Mark Liang, a Ph.D. student in the Finance Department. He will assist me in grading homework assignments. He will not hold any review or tutoring sessions. If you have questions, ask me.

Homework Assignments

There will be six homework assignments, to be completed independently from other students. The assignments will be made available in class, and also on *Canvas*. Your answers should consist of spreadsheets that show (and use) your calculations and are legible (including legible formulas). Where necessary, type text into the spreadsheet (for example, to explain something, or to answer a qualitative question). Mark your answers, so I know which cell (or group of cells) contains your answer to which question. Follow all instructions!

There will be one additional, much shorter homework assignment, due after our last class. It will include only one question. The score on this extra assignment will count less than the earlier five assignments when I compute the the *Individual homework assignments* score (see below, [Grading](#)).

Submission of answers: Upload your spreadsheet on *Canvas*, using the "Assignments" page, before the due date and time.

Do not discuss or share homework assignment answers before their due dates; see the discussion of [Academic Misconduct](#), below.

Exams

There will be one final exam, which will include *all* topics covered during the *entire* course, unless I specifically declared a topic "FYI only".

The final exam will be closed-book / closed notes. However, you will be allowed to use 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 will be using a calculator during the exam, please practice using it to solve problems as we progress through the course, so there are no surprise problems during the final exam. If you decide to use a financial calculator, make sure you know how to operate it; see above, under [Equipment](#). In the exam, you must convince me that you know what you are doing: just writing down a result 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.

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. On average, a little over half of students received A or A- grades in the past, and a little less than half the students received B+ or lower grades.

Your overall score is computed as follows:

Weight	Graded work
40%	Individual homework assignments
50%	Final exam
10%	Participation

For the "Participation" score, I will keep track of your class 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) 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).

Academic Misconduct

Academic Honesty: The University of Houston’s Academic Honesty Policy is strictly enforced by the Bauer College and by this professor. For details of the Policy, see uh.edu/academic-honesty-graduate or uh.edu/provost/policies-resources/honesty. It is your responsibility to fully understand and comply with all principles contained within this Policy. Please note that “academic misconduct” includes many actions/behaviors, some of which may seem innocuous to you. For example, you are not allowed to share or discuss assignments with other students before the due dates, even if you believe you are helping them learn. Furthermore, if you discover a case of academic misconduct, it is your duty to report this immediately (failing to report misconduct also constitutes academic misconduct).