

WESTERN KENTUCKY UNIVERSITY
COLLEGE OF BUSINESS ADMINISTRATION
BA 519 500-- ADVANCED MANAGERIAL FINANCE

Dr. Indudeep S. Chhachhi

Spring 2005

Department of Accounting & Finance

E-Mail: indudeep.chhachhi@wku.edu

BA 519 Web Site: <http://www.wku.edu/~indudeep.chhachhi/hmba519.htm>

Office & Office Hours:

331 Grise Hall, 745-2928

MTF

8:15 - 10:15 and by appointment

#1: "Finance. Eat your spinach. Finance is at the core of so many successful companies that no CEO aspirant can afford to avoid schooling in it... This will help you understand, among other things, how your company raises and allocates capital. It will also make clear why that new product your team has designed might not be launched, despite its sensational showing in test markets: The numbers indicate that most likely the returns will never clear the hurdle rate that will cover the cost of capital it requires and deliver a profit as well."

B Really Important Things You Need to Know (to advance your career today), Fortune Magazine, January 15, 1996, p. 36.

TEXTS AND CALCULATORS

REQUIRED

Stephen Ross, Randolph Westerfield, and Jeffrey Jaffe, Corporate Finance (7th ed., Mc-Graw Hill, Irwin, 2005). This book is available at the University Bookstore packaged with the Student Solution Manual.

A Financial Calculator--*Preferably* Texas Instruments' BA II Plus Professional. HP-10B and Sharp Electronics' EL-733A are also supported by the White Supplement (see below).

RECOMMENDED

Mark A. White, Financial Analysis with an Electronic Calculator (4th ed., Irwin, 2000).

COURSE OBJECTIVES

The objective of this class is to consolidate the student's understanding of financial management techniques, issues and concepts with an emphasis on integrating theory and practical applications. The latter is accomplished by using practitioner oriented readings, cases, videos, and guest speaker(s). The readings, videos, and guest speaker

will fill the gaps between textbook treatments and practical issues in finance, while cases will give an opportunity to apply the concepts of financial management of modern business corporation in a more realistic setting. Topics covered will include risk and return, valuation process, capital budgeting, capital structure, cost of capital, dividend policy, financial policy, options, and corporate restructuring.

PREREQUISITES

Admission to the MBA Program and completion or waiver of BA 509.

COURSE PREPARATION

BA 519 encompasses the basics of what I believe every general manager should know about finance. The intent of this course is to equip you with skills necessary to participate fully and creatively in the resolution of many financial issues facing your organization. The first step in this process is to learn the relevant theory. Its only after you have mastered the theoretical constructs that we can move on to the learning of “practical” issues involved in managerial decision making. The theory coverage in this class **builds upon** the foundation material that you covered in either BA 509 or an equivalent course in your undergraduate business curriculum.

Due to the abstract nature of many of the topics in this course, it is relatively easy to learn a little each day, and virtually impossible to learn a lot by cramming at the last minute. You will learn more and get more out of the lectures if you have read the assignments *PRIOR TO COMING TO CLASS*. The ITV mode of instruction that we will be using (which typically slows down progress) further highlights the need to come prepared to every class. In order to assist you in this process and allow the class time to be used more productively in fostering thought and discussion, I will be posting Power Point slides on the BA 519 web site prior to the class. You are **STRONGLY ENCOURAGED** to print the slides and bring them to the class with you. This will allow you to spend your time in absorbing and critically questioning the material presented in class rather than trying to copy down the points shown on the slides. I must point out, however, *in the strongest terms possible* that the slides posted on the web are **NOT a substitute for attending the classes**. Your learning and, thus the final grade in the course, will be very adversely affected if you conclude otherwise.

As partial preparation for the exams, it is suggested that you work the end-of-chapter problems in the textbook. Your package contains the solutions to these problems. In addition, it is very helpful for students to form small study groups. Until students have mastered the material, two or more heads are a lot better than one.

DROPPING THE COURSE

The last day to drop the course with a "W" is Friday, March 4. No withdrawal cards will be signed after this deadline.

LECTURES

Lectures will cover only the more difficult or highly mathematical parts of the text. You will be responsible for reading all of the descriptive material, except where parts of chapters are specifically omitted.

CASE DISCUSSIONS

A portion of the class-room instruction will be in the form of case discussions. These cases will build upon the theoretical concepts learned in this course and will help you develop your analytical skills in solving "real-life" problems. Three cases will be discussed in class. To prepare, each group should read the case thoroughly. Identify and analyze the principal issues raised in the case. Most cases are designed to highlight a particular set of financial tools, which are presented in the assigned readings. Use these tools to the best of your ability, and temper your analysis with common sense. Each group needs to submit spreadsheet(s) on the day of the class discussion. Your case grade will be based jointly on the contribution you make to the class discussion and the spreadsheet(s) you submit.

In addition to class discussions, two comprehensive written reports (case assignments), with a maximum of six double-spaced pages (excluding exhibits) are required. Penalty will be assessed for late submissions and for exceeding the maximum limit. Detailed guidelines for preparing and writing case assignments will be provided later in the class. First case report is a group assignment while the second is an individual one. The assigned cases will be kept in the reserve section (circulation desk) of the Helm-Cravens Library for your perusal.

READINGS

I will introduce articles in the area of financial management with an attempt to familiarize you with the practitioners' views on different theoretical concepts. You will be responsible for the assigned readings for the exams.

CLASS PARTICIPATION

Class participation is a very important component of learning. Active participation is required and will be expected every day. Each student should endeavor to bring their insights from work or outside readings of financial publications (including, but not limited to Business Week, Financial Times and WSJ) as they relate to class discussions.

EXAMS AND GRADING

Grading Process

I see grades as serving three main functions. They provide: (i) an incentive to prepare; (ii) a way to recognize superior performance; and (iii) information about how well you are progressing. I hope you delight in the accomplishment of a good grade, and respond to a poor grade by working to improve your learning procedures. If grade anxiety becomes a problem, however, something is wrong and we should talk.

There is tremendous variation in the financial sophistication of the students in this class. It is fine if you do not have the background of the treasurers and commercial bankers around you. You may struggle harder to master financial topics, and may end up with a lower grade. But you may have climbed further up the financial learning curve than someone who had started ahead of you. If, in contrast, you have a background in the issues we discuss, please do not hesitate to add your knowledge to the class discussion.

Your grade will be determined according to the following weighting scheme:

First exam	-	250 points
Second exam	-	190
Third (Final) exam	-	190
Case discussions	-	120
Group written case	-	110
Individual final case	-	110
Class participation	-	30
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Total		1000 points

Grading will be based on the following scale:

> 89%	-	A
77 - 89%	-	B
65 - 76.9%	-	C
55 - 64.9%	-	D
< 55%	-	F

No makeup exams will be given. A student who misses a mid-term exam for good cause (documented serious illness/severe personal problem) will have the other exams weighted accordingly. Failure to take all exams will result in an automatic "F", unless the reason for missing the scheduled exam has been approved prior to the exam.

ACADEMIC HONESTY

Academic Offenses—including academic dishonesty, plagiarism, cheating and others will be taken very seriously and dealt with consistent with University Policies.

Sharing (or getting) data, spreadsheet, or write-ups of cases with anyone (or from anyone) except your group partners will be considered a violation of this policy and will result in an **Automatic 'F' in the class** for all involved.

Student work may be checked using plagiarism detection software.

COURSE COVERAGE

You are responsible for the whole chapter, unless there are selected pages indicated within parentheses, in which case you are responsible only for the indicated pages and the related problems.

Schedule: Following is a **tentative** class schedule. This schedule may change as deemed appropriate. (*We will take a 10 minute break during classes.*)

<u>Date</u>	<u>Topic</u>	<u>Chapters</u>
Jan. 12	Introduction & Overview of Financial Management <i>Accounting Statements and CFs (self)</i>	1 2 (incl. app.)
Jan. 19	Time Value of Money Net Present Value: First Principles of Finance Bond & Stock Valuation (pp. 106 - 122 & p. 127)	4 App. 4A 5
Jan. 26	Capital Budgeting decision rules	6
Feb. 2	NPV & Capital Budgeting and Review	7
Feb. 9	Capital Market Theory <i>Case 1</i>	9
Feb. 16	<u>FIRST EXAM (5:30 – 8:00 P.M)</u>	1 - 7
Feb. 23	<i>Case 2</i> Review of First Exam Return and Risk calculations & CAPM	 10
Mar. 2	<i>Case 3</i> Return and Risk calculations & CAPM	10
Mar. 9	Expected and Unexpected Returns	11

		(pp. 297 - 300)
	Cost of Equity Capital	12
	Efficiency of Capital Markets	13
	<i>An Introduction to Long-Term Financing (self)</i>	14
	Cost of Capital Calculation	17
		(pp. 480 – 481 & 485-486)

GROUP WRITTEN CASE DUE (MARCH 9TH {5:30 P.M.})

Mar. 16	Capital Structure	15, 16
Mar. 23	<u>SPRING BREAK</u>	
Mar. 30	Capital Structure	15, 16
	Dividend Policy	18
	<i>“Warren Buffett : The Ultimate Entrepreneur” (Video)</i>	
Apr. 6	<u>SECOND EXAM (5:30 – 8:00 P.M.)</u>	9 - 14, 17
Apr. 13	Strategy and Analysis in Using Net Present Value	8
		(pp. 200 - 206, & 212 – 215)
	Options and Corporate Finance: Basic Concepts	22
		(pp. 612–617, 620-624, 633-635 & 638)
	Review of Second Exam	
Apr. 20	Real Options: Valuing Managerial Flexibility	
	Capital Projects as Real Options: An Introduction	
	<i>(Handouts)</i>	
	<i>“How to Steal \$500 million” (Video)</i>	
Apr. 27	Mergers and Acquisitions	29

INDIVIDUAL WRITTEN CASE DUE (APRIL 27TH {5:30 P.M.})

May 4	<u>FINAL EXAM (5:30 – 8:00 P.M.)</u>	4, 8, 15, 16, 18, 22, 29
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INFORMATION TO BE E-MAILED TO ME BY JANUARY 17TH 2005

1. Name (underline the name by which you like to be addressed); E-Mail address
2. What other classes are you taking this semester? How many hours a week (on an average) do you work?
3. Undergraduate graduation date and major.
4. When did you last take a Finance class? Where?
5. Brief summary of your work experience over the last 3-5 years. Emphasize finance related assignments, if any.
6. Rate your spreadsheet skills on a scale of 1-5 (1: don't know anything; 5: very conversant). Explain if necessary.
7. What are your expectations/fears from this class? Be candid.

Your preferences for group partners (in decreasing order of desirability). **Write down at least 4-5 names.** Ideally, group partners should have complementary skills. Also, it might be helpful if you can at least stand each other's company!!!