

Finance 5439: Capital Structure and Risk Management

Graduate School of Business Administration
University of Florida

Professor Mark J. Flannery

Spring 2006

Nearly all information about this course is contained in the course web page, which can be reached through the University's new VISTA site:

<http://lss.at.ufl.edu>

VISTA requires you to log in using your GatorLink username and password. If you are unfamiliar with the VISTA system, download an introduction at www.cba.ufl.edu/upo/docs/classes/GettingStartedWithVISTA.pdf.

Course Goals

This course continues and expands the material presented FIN 5437. We will cover:

- the connection between asset pricing and capital budgeting
- capital structure (leverage) and dividend policies
- options and firm risk management

Taken together, Fin5437 and FIN5439 present a core set of financial concepts and institutional facts, which should be known by all MBA students. In addition, these two courses provide background for students planning to take elective courses in finance, insurance, and real estate.

Finance topics necessarily involve numerical calculations, which causes anxiety for some students. However, FIN 5439 is primarily designed to provide students with a set of *concepts* for evaluating business decisions in a coherent fashion. Students differ in how they best absorb and learn new conceptual material. Although numbers are inevitable, I will try to provide several explanations -- intuitive, numerical, and graphical -- for each of the course's major ideas.

Instructor Contact Information: Sometimes, the best way to get a quick answer or assessment is to catch me immediately before or after class, or during the break. If that doesn't work for you, please try to attend my regular office hours:

Office hours: Tentatively: Monday

(Will confirm office hours the first week of class, to be sure they are convenient for all students.)

315C STZ

Telephone: 392-3184

Email: flannery@ufl.edu

If regular office hours are not convenient for you, we can arrange a specific appointment. My telephone has voicemail, and I read my email daily (even if I'm not in my office). Please do not call me at home – not even the night before the exam. (Thanks.)

Scheduling issue: I must be out of town on Thursday, April 20. The MBA students will switch their B-Law class from Wednesday (April 19) to Thursday (April 20), so I can meet with you at the usual time of day on the 19th. I'll make up the MSM class earlier that week, perhaps on Tuesday evening. MSM students may attend the MBA class on Wednesday if that is convenient for them.

A short (7-week) module provides little opportunity to recover should you fall far behind. Keep current. If you encounter difficulties, act to resolve the problem as soon as possible.

Grading:

Group Problem Sets (3):	12%
Group case write-ups (2):	22%
Quizzes in class (3 @ 12% each):	24% (your worst quiz is dropped)
Group assessment and class participation:	6%
Final exam:	36%

Forming Teams (Groups). Students should form groups composed of 3 - 5 individuals, for the Problem Sets and Case write-ups.

Teammates need not be enrolled in the same section of the course. Groups will remain together for the entire module. All team members receive the same score for each submission. I will record your group composition by reading the names on the first homework assignment.

Class participation. FIN 5439 involves considerable reading and lecture material. I want to spend as much class time as possible solving problems that illustrate the general points of analysis. For the problem-solving classes, I will post the problems in advance on the class website.

Please understand that I don't plan to do all the problem-solving by myself. Learning finance is not a spectator sport and you should come to class on time and prepared to discuss the day's material.

Even if you attend class regularly, you will probably find it necessary to work on problems from the textbook or past exams (available on the class web page) in order to understand the course materials fully.

Required readings:

1. Brigham and Ehrhardt, *Financial Management, Theory and Practice*, 11th Edition, 2005. (This is the same text you have been using in Prof. Crum's FIN 5437.) Referenced below as "BE."

2. A course packet at the Target Copy Center includes just the Topic Notes. Target is at 1412 NW University Avenue. Tel: 352-376-3826.

Alternatively, you may download and print the Topic Notes (as six pdf files; about 165 pages) *from the course web site, under “Learning Resources.” My class slides are in the same place – although only three are available at the start of the course.*

Quizzes: The syllabus indicates the dates of three in-class quizzes, which will consist of multiple choice or short-answer questions. Be sure you have a calculator with you for all quizzes. Unless otherwise announced in class, the quiz will be the *last* activity in class on the scheduled day. Your lowest quiz score will be dropped when computing your final class grade (unless the lowest quiz raises your overall score).

Old quizzes and answers are provided under “Quizzes-Assessments” in Vista.

Problem Sets: Each group should submit a single set of answers to each problem set. These answers will not be closely graded for content, but points will be deducted if the solutions are incomplete or carelessly done. No credit is given for late submissions. Solutions will be posted to the class Web page shortly after the submission deadline, and you should be sure you understand any differences between the posted solutions and your group’s responses.

Some of the same problems were assigned last year, and written solutions were provided. You do yourselves no favor by simply replicating those solutions. The goal is to learn how to do the problems, not to practice your penmanship!

Problem sets AND cases are available under “Assignments/Projects” at the class website in Vista.

Cases: We will devote approximately one-half of a class session to discussing each of the (two) assigned cases. Each team should prepare a case write-up, which is due at the start of the first class meeting attended by any member of the team. All members of the team should come to class prepared to discuss *all* aspects of the case. The class web site will contain questions for each case, around which you should organize your case analysis and discussion.

Problem Sets and Cases should be neatly typed. Case write-ups should take the form of a memo to your boss, or to the “head” person referenced in the case. For problem sets, you may hand-write portions entailing substantial numerical calculation, provided it is neat and professional-looking.

Submit cases and problem sets as a hard copy to me in class, to my mailbox in BUS 321 or the mail-holder on my office door.

For the *cases* ONLY, please email me an electronic copy (e.g. a Word file) of the report *in addition to* submitting a printed copy in class.

In the event of an emergency, you may send an electronic copy -- in Word or Excel ONLY -- via email. But:

- a) Be sure to paginate any Excel files, so I can print them *without editing*.
- b) Don't use this form of submission except in an emergency.
- c) If you need to use this format, name the file something that ties it to you. E.g. "Group_1_Homework2.doc" is more likely to get you credit for the work than one of the eight files named "Homework.doc".

Re-grading Policy: Believe it or not, professors sometimes make mistakes in grading an assignment. (Of course, this happens very rarely...) If you disagree with the way an assignment or examination has been graded, or would like further explanation, please write a short explanation (justification) of your concern. If you present me with the assignment or exam and your explanation during the seven calendar days following the day I return the material in class, I will re-read the *entire* submission, taking your comments into consideration. No re-grading will be considered outside this 7-day window.

Recommended End-of-Chapter Problems: I have identified some of the more relevant or helpful problems posed at the end of the required chapters. I've posted the BE Instructor Manual's end-of-chapter problem solutions on the course Web page. For each assigned chapter, I *strongly* encourage you to work at least some of the analytical problems.

Answers to these problems from the Instructor's Manual are available on the course web site, under "Learning Resources."

Past Exam and Quiz Questions: The Web page contains a set of past exams, along with sample answers. You may find it helpful (or comforting) to look at these questions as part of your studying.

Old quizzes, exams and sample answers are provided under "Quizzes-Assessments" in Vista.

Exam/Quiz "crib sheet": Each student may use a one-page "crib sheet" during the exam and quizzes.

"One page" means one (single) side of one 8 ½ x 11 inch page.

There is no restriction of the size of the type or writing you employ on that page.

Students may cooperate in preparing crib sheets, but each student must have his/her own copy during the exam.

You may bring in a copy of someone else's crib sheet, but it won't do you much good. (The big value lies primarily in preparing the sheet.)

Bring your own working calculator to the exam. Calculators may not be shared under any circumstances.

The final exam will be administered during the exam period: from 7:15 - 10:15 pm. on Tuesday, May 2:

MBA (Section 5077): STZ 103

MSM (Section 5284): STZ 101

No postponements or make-ups!

FYI: The complete final exam schedule for Mod 4 core-courses follows:

Module 4 Exam Week: Monday, May 1, 2006 – Friday, May 5, 2006

Course	Section	Date	Time	Room	Instructor
AGC 5075	6883	Wednesday	7:15 - 10:15 p.m.	STZ 102	Staff
BUL 5811	8524	Monday	7:15 - 10:15 p.m.	STZ 101	Maurer
FIN 5439	5077	Tuesday	7:15 - 10:15 p.m.	STZ 103	Flannery
FIN 5439	5284	Tuesday	7:15 - 10:15 p.m.	STZ 101	Flannery
MAN 5502	5316	Wednesday	7:15 - 10:15 p.m.	STZ 103	Paul
MAN 5502	5318	Wednesday	7:15 - 10:15 p.m.	STZ 101	Paul
MAN 5246	8498	Tuesday	7:15 - 10:15 p.m.	STZ 102	Staff
QMB 5305	6651	Monday	7:15 - 10:15 p.m.	STZ 102	Kraft

Other Information

Web sites providing career information about a variety of specialties, including finance, accounting, and management:

<http://gozips.uakron.edu/~drd/cdesc.html>

<http://www.careers-in-business.com/> (general business jobs)

<http://www.careers-in-finance.com/> (finance jobs in particular)

<http://www.jobsinthemoney.com> (ditto)

<http://www.crc.ufl.edu/> (UF Career Resource Center)

<http://www.cba.ufl.edu/Research/reference/career.asp> (Warrington College)
General interview and preparation tips can be found many places on the web, including:

<http://content.monster.com/ace/>

Interesting or informative finance links

<http://www.mhhe.com/business/finance/links.mhtml>

<http://www.duke.edu/~charvey/Classes/wpg/glossary.htm>

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Reading List

In the reading list, "BE" refers to the Brigham-Ehrhardt textbook, 11th Edition. "Topic Notes" can be

- downloaded from the course web site, or
- purchased at Target.

In some cases, the Topic Notes constitute the most important reading, while the text serves as background. Other times, their relative importance is reversed. The relative importance of readings within each topic is indicated by their order in the list of required readings.

1) Asset Pricing and Capital Budgeting (1.5 sessions)

- Topic Note 1
- Review: BE Chapter 5, pages 176-186
- Review: BE Chapter 10, pp. 343-346, Review advantages of NPV method

Recommended Problems (NOT "Questions" or "Self-Test Problems"):

Chapter 5: 2

Chapter 10: 2, 4, 9 (parts a-c only), 14

2) Capital Structure, the Cost of Capital, and Firm Value (2.5 sessions)

- Topic Note 2
- Review: BE Chapter 11, pp. 379-397, 406, 409
- Review: BE Chapter 3 material on net cash flow, taxes.
- Review: BE Chapter 7, pp. 266-274

Recommended Problems (NOT "Questions" or "Self-Test Problems"):

Chapter 7: 10, 15, 19

Chapter 11: 4, 6

For current bond pricing information, see www.bondsonline.com.

Problem Set # 1: Due on Thursday, March 24, 5:00 pm.

In-Class Quiz # 1: Thursday, March 24 (30 minutes)

Case #1: Southwest Airlines Winglets. This case will be discussed in class on Thursday, March 30. Submit team write-ups at the start of the earliest class period attended by any group member.

3) Capital Structure and Dividend Policies (Two sessions)

- Topic Note 3
- BE Chapter 16 (except pp. 559-560)
- BE Chapter 17, pp. 604-606
- BE Chapter 18
- Review: BE Chapter 9, pp. 324-333

Recommended Problems (NOT "Questions" or "Self-Test Problems"):

Chapter 16: 3, 5, 6

Chapter 17: 1

Chapter 18: 2, 3, 4, 5

If you are unfamiliar with U.S. markets and instruments, read some or all of:

- BE Chapter 21, pp. 712-718, 722-730
- BE Chapter 19, pp. 668-678

(Chapters 19 and 21 are required only to fill in your institutional knowledge. If you can follow the lectures and the cases, you are doing fine in this dimension.)

In-Class Quiz # 2: Thursday, April 6 (20-30 minutes)

Problem Set # 2: Due on Thursday, April 13, 5:00 pm.

4) Option Pricing (Three sessions)

- Topic Note 4
- Review: BE Chapter 8 (Don't sweat over the details of pp. 295-297)
- Review: BE Chapter 12 (but skip "Approach 4" on pages 427-432)
- "The Trillion Dollar Bet": video (partial showing in class)

Recommended Problems (NOT "Questions" or "Self-Test Problems"):

Chapter 8: 1, 4, 5

Also be sure you can do the option pricing problems in Topic Note 4.

An option value calculator is available on the Web at:

www.intrepid.com/~robertl/option-pricer1.html

(If you find other good ones, please let me know their locations, so I can pass them along to the other students.)

An interesting "on line textbook" and web site about options can be found at: www.in-the-money.com.

5) Risk Management and Hedging (Two sessions)

- Topic Note 5
- BE Chapter 23

Recommended Problems (NOT "Questions" or "Self-Test Problems"):
Chapter 23: 1, 2, 3

NOTE: The MBA class will meet with me on Wednesday, April 19 instead of Thursday, April 20. Prof. Maurer has graciously agreed to switch class periods with me so I can take a quick trip to England.
The MSM class will be made up earlier that week – most likely, on Tuesday evening.
We will fix the time for this makeup after consulting everyone's schedule.

In-Class Quiz # 3: Tuesday, April 18 (30 minutes)

Case #2: Southwest Airlines Jet Fuel Hedging. This case will be discussed in class on Tuesday, April 25. Submit team write-ups at the start of the earliest class period attended by any group member.

6) Applying Option Concepts to Corporate Finance (One session)

- Topic Note 6
- BE Chapter 15, pp. 525-534
- BE Chapter 17, pp. 600-604

Problem Set # 3: Due on Thursday, April 27, 5:00 pm.

Final Exam: Tuesday, May 2 from 7:15 - 10:15 PM. Each section is assigned to a specific Stuzin room.

MBA, Section 5077: Stuzin Hall 103

MSM, Section 5284: Stuzin Hall 101

No postponements or make-ups!

Summary Schedule, Finance 5439 (Spring 2006)

This schedule is subject to minor changes, which will be announced in class.

1	T, 3/7	Topic 1
2	Th, 3/9	Topic 1, Start Topic 2
3	T, 3/21	Topic 2
4	Th, 3/24	Topic 2 Problem Set #1 In-class Quiz #1
5	T, 3/28	Topic 3
6	Th, 3/30	Topic 3 (half of class) Southwest Airlines Winglets Case
7	T, 4/4	Topic 3, perhaps start Topic 4
8	Th, 4/6	Topic 4 In-class Quiz #2
9	T, 4/11	Topic 4
10	Th, 4/13	Topic 4 Problem Set #2
11	T, 4/18	Topic 5 In-class Quiz #3
12	WEDNESDAY 4/19 or MSM makeup time	Topic 5
13	T, 4/25	Topic 5 (half of class) Southwest Jet Fuel Hedging Case
14	Th, 4/27	Topic 6 Problem Set #3
		Review Session and extra office hours will be scheduled.
		Exam Week: May 1 – 5
		Finance Tuesday, May 2, 7:15 – 10:15 pm