FIN 5437

FINANCE I: Asset Valuation, Risk and Return
Roy L. Crum
Fall (Module 1) 2008

Time

Monday and Wednesday, 07:25 a.m. – 09:20 a.m.

Room

Stuzin Hall Room 101

Office

Stuzin Hall Room 309D
Phone: 392-0115
Fax: 372-4783
E-mail: roy.crum@cba.ufl.edu Put as the subject line “FIN 5437”

Office Hours

Stuzin Hall Room 309D
Monday and Wednesday, 09:30 a.m. – 10:30 a.m.
and by appointment. Contact me before/after class or by email to set up an appointment.

Course Materials

Required


Optional

*The Wall Street Journal*. Regular reading of the *Journal* is a good way to begin a lifelong pattern of professional reading and development even if your primary interest is not in finance. We will discuss significant financial events pertinent to the class and reported in the *Journal* as time permits.

*Other Materials*. Sample quiz questions, PowerPoint slides, and other handouts will be made available in the class Home Page.

Calculator

A financial calculator—defined as one with bond valuation, net present value (NPV), and internal rate of return (IRR) functions—is a necessity for the finance core. Two candidates are
the HP 10B (about $35) and the HP 12C (about $90). Calculators are required for the quizzes; be sure to have fresh or back-up batteries. Also, learn how to use your calculator during the first week or two of class. **Do not wait until needed for the first assignment to learn how to use the calculator!**

**Course Description**

This course is the first of two modules of the finance core. Taken together, these two modules are designed to serve two purposes. First, every MSM student should be familiar with a set of financial concepts and tools that are essential to managing a business. Finance I and II expose all students—regardless of their intended concentration—to a body of information that will help them to succeed as general managers. Second, these two courses provide a foundation for students planning to take further elective courses in finance, insurance, and real estate.

The format of Finance I is primarily lecture and discussion, with real-world assignments to make the linkage with business operations and to gauge your understanding of the material. The topics presented often involve detailed numerical calculations, which may be intimidating to some students. While this “number crunching” is essential to ensure that you can analyze the data systematically, the more important purpose of the finance core is to instill in students a useful set of concepts and a reference framework that can be used to evaluate business decisions in a rational, coherent manner.

Students should read the assigned chapters before each lecture. Lectures will focus on the most important or difficult concepts, but **students are responsible for all concepts covered in assigned chapters**, whether or not the concept is discussed in class. Also, I will extend some of the concepts beyond what is written in the textbook, and you will be responsible for these extensions.

**Course Objectives**

Finance I is intended to provide students with:
- An understanding of selected key finance concepts,
- An opportunity to discuss contemporary financial events as they occur, and
- An appreciation of the challenges in applying financial concepts to real-world situations.

**Student Assessment**

There will be three graded real-world assignments and two quizzes. You will work the real-world assignments in **groups**. You may discuss the real-world assignments with non-group classmates as much as desired. However, the reports submitted for grading (one submission per group) must be your own group’s work. Real-world assignment reports are due on the dates listed in the class schedule at the beginning of class. At the end of the course, a confidential peer evaluation will be conducted where you must rate the contribution to the group effort of all team members, including yourself. Believe me, if you do not contribute your fair share to the group effort, your group mates will reveal that fact to me and I will penalize your grade significantly.
The two quizzes will take place in the regularly scheduled class. They will be closed book, closed notes, but you may use a one-page formula sheet. If you miss one of the quizzes with a legitimate excuse, the final exam will count for that quiz. Otherwise the comprehensive final exam is optional and will substitute for your lowest quiz grade.

Grades

Grades will be based on the following weights:

<table>
<thead>
<tr>
<th>Graded Assignments</th>
<th>36 points (12 points each)</th>
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<tbody>
<tr>
<td>Quizzes</td>
<td>60 points (30 points each)</td>
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<tr>
<td>Class Participation</td>
<td>4 points</td>
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<td>100 points</td>
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Class Schedule

The following schedule provides the reading assignments and real-world assignment due dates. Timing is approximate, and lectures may begin early or spill over into succeeding days. No textbook appendices will be assigned in this course, although you are encouraged to read them and think about the issues.

<table>
<thead>
<tr>
<th>DATE</th>
<th>TEXT</th>
<th>TOPIC</th>
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<tbody>
<tr>
<td>Aug 25</td>
<td>Ch 1</td>
<td>Course Introduction</td>
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<tr>
<td></td>
<td>27 Ch 1, 2</td>
<td>Introduction; Time Value of Money</td>
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<tr>
<td>Sep 1</td>
<td></td>
<td><strong>Holiday—No Class</strong></td>
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<td></td>
<td>3 Ch 3, 4</td>
<td>Financial Statements; Financial Analysis</td>
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<td></td>
<td>8 Ch 6 – 7</td>
<td>Risk and Return; Portfolio Theory and Asset Pricing</td>
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<tr>
<td></td>
<td>10 Ch 6 – 7</td>
<td>Risk and Return; Portfolio Theory and Asset Pricing; <strong>Assignment 1 Due</strong></td>
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<tr>
<td>15</td>
<td></td>
<td><strong>Quiz 1 over chapters 1, 2, 3, 4, 6 and 7</strong></td>
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<tr>
<td>17</td>
<td>Ch 5</td>
<td>Valuing Bonds</td>
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<tr>
<td>22</td>
<td>Ch 8</td>
<td>Valuing Equities; <strong>Assignment 2 Due</strong></td>
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<tr>
<td>24</td>
<td>Ch 9</td>
<td>Valuing Financial Options</td>
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<td>29</td>
<td>Ch 10</td>
<td>Cost of Capital</td>
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<td>Oct 1</td>
<td>Ch 11-12</td>
<td>Project Analysis</td>
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<td></td>
<td>6 Ch 11-12</td>
<td>Project Analysis; <strong>Assignment 3 Due</strong></td>
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<tr>
<td></td>
<td>8</td>
<td><strong>Quiz 2 over chapters 5, 8, 9, 10, 11, and 12</strong></td>
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<td>13</td>
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<td><strong>Final Exam, 7:15 p.m., STZ 101</strong></td>
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Real-World Assignments

1. Due date: September 10, 2008: For the company your team has selected, conduct a financial analysis using annual reports or 10-K reports for the past 3 or more years and other publicly-available information of relevance for the assignment. Use the analytical tools we discussed in class or are in the textbook in conducting the analysis. Comment on Strengths, Weaknesses, Opportunities, and Threats you see for the company as revealed in the financial and qualitative analyses. Turn in your analysis (memo format), one per team, and no more than 3 double-spaced pages, printed on one side, although you can append other materials as you wish. Turn in a hard copy to me in class at the beginning of the period.

2. Due date: September 22, 2008: For the company your team has selected and for which you conducted a financial analysis, select 3 competitors in the same industries or lines of businesses that you judge to be significant players in the industry. They do not have to be U.S. companies, but they must have data available for the project. Calculate holding period returns for each of these companies (weekly, using Friday closing adjusted stock prices (or daily if you so choose) to make the calculations). Using these data, ascertain the standard deviations and betas for each of these companies and explain why they differ across the companies (if they do). To what extent do the stock returns of these companies tend to move together? If their betas and/or standard deviations differ, explain why you think this is the case. Turn in your analysis (memo format), one per team, and no more than 3 double spaced pages, printed on one side, although you can append other materials as you wish. Turn in a hard copy to me in class at the beginning of the period.

3. Due date: October 6, 2008: For the company your team has selected, conduct an intrinsic value analysis of the stock price using the models we developed in class. Does it appear to be fairly priced in the market? Why or why not? Are the bonds fairly priced? What is the yield to maturity for the major bond issues of the company? Are these yields consistent with the average yields for bonds with the same bond rating? Once you have these data, calculate the weighted average cost of capital. Turn in your analysis (memo format), one per team, and no more than 3 double spaced pages, printed on one side, although you can append other materials as you wish. Turn in a hard copy to me in class at the beginning of the period.
**Listing of Companies that can be Chosen for the Team Projects**

1. IBM  
2. Southwest Airlines  
3. Coca Cola  
4. Lowes  
5. General Electric  
6. Proctor & Gamble  
7. ExxonMobil  
8. General Mills  
9. Google  
10. Motorola  
11. Verizon  
12. Pfizer  
13. Federal Express  
14. Kaiser Aluminum  
15. Caterpillar  
16. Microsoft  
17. Ford  
18. Pepsico  
19. Wal-Mart  
20. United Technologies  
21. Colgate-Palmolive  
22. J.C. Penney  
23. Disney  
24. Apple  
25. Boise Cascade  
26. American Airlines  
27. Oracle  
28. McDonalds  
29. Alcoa  
30. Eastman Kodak  
31. Kelloggs  
32. DuPont  
33. CSX  
34. Target  
35. Boeing  
36. Hewlett Packard  
37. Altria  
38. Home Depot  
39. General Dynamics  
40. Dell Computer  
41. United Parcel Service  
42. Johnson & Johnson  
43. Intel  
44. Goodyear  
45. Estee Lauder