

**BUAD 306: Business Finance**  
**Syllabus – Summer 2015**

**Section 14786R: Tue, Thu 12:00 pm – 02:30 pm at HOH 301**

|                      |                            |
|----------------------|----------------------------|
| <b>Instructor:</b>   | <b>Georgios Magkotsios</b> |
| <b>Office:</b>       | <b>BRI 308</b>             |
| <b>Office Hours:</b> | <b>Schedule by email</b>   |
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**Course Description**

BUAD 306 is a fundamentals course in business finance. Finance is a way of thinking about economic problems that involve uncertainty over time. This course is designed to provide an introductory framework for understanding how financiers think, how they break down components of a financial problem, and how they make decisions as investors and corporations in the financial market. By the end of the semester, you should be familiar with financial vocabulary, understand aspects of financial theory, develop skills in financial computation, and appreciate the underlying financial mindset as well as incentives involved when solving problems of finance. You will learn how to determine risk, how to make decisions, and how to value an investment as a potential financial opportunity.

**Required Material**

- *Fundamentals of Corporate Finance*, Tenth (Alternate) Edition by Ross, Westerfield and Jordan.
- Calculator (with or without financial functions). It is the student's responsibility to learn the functions of their particular calculators. You should bring your calculator to all lectures and exams. *You will be extremely disadvantaged if you do not have your calculator during exams.* During exams you will not be allowed to use cellphone calculators, computers, or any other device that can communicate to other devices, so learning how to use the financial calculator is essential for success in the class.

**Prerequisites:** [ECON 351](#) and one of [ACCT 410](#), [BUAD 280](#), [BUAD 285a](#), [BUAD 286b](#) or [BUAD 305](#)

**Course Notes:** Copies of lecture slides and other class information are available through your Blackboard account.

## Grading Summary:

| <u>Assignments</u>          | <u>% of Grade</u> |      |
|-----------------------------|-------------------|------|
| <b>TESTS</b>                | <b>Midterm #1</b> | 25%  |
|                             | <b>Midterm #2</b> | 25%  |
|                             | <b>Final Exam</b> | 40%  |
| <b>HOMEWORK ASSIGNMENTS</b> | 10%               |      |
| <b>TOTAL</b>                |                   | 100% |

Final grades represent how you perform in the class relative to other students. Your grade will not be based on a mandated target, but on your performance. Historically, the average grade for this class is about a (B). Three items are considered when assigning final grades:

1. Your average weighted score as a percentage of the available points for all assignments (the points you receive divided by the number of points possible).
2. The overall average percentage score within the class.
3. Your ranking among all students in the class.

## Assignments and Grading Detail

Your grade is made up of the following categories:

1. **Exams.** All exams are closed book, closed notes. Financial calculators are allowed and recommended, but E-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops, i-pods, etc.) are not allowed. You will be provided with any relevant equations (and some irrelevant ones). All exams will use the Scantron multiple choice format. Students must provide their own pencils. Students must take the exam in the lecture section in which they are registered.

Any re-grade requests must be submitted to me in writing within one school week of the distribution of correct answers. *Any re-grading will encompass the entire exam.*

2. **Assignments.** The homework grade will be assessed over 4 assignments, each due on a Tuesday at 11:59 pm. The schedule is listed below. Assignments must be submitted electronically via Blackboard. Assignments will be given a grade of "check" or "no credit". Homework will be assigned a "check" if and only if the assignment is reasonably complete and correct. Working in groups is encouraged, but each group member must turn in his or her own separate write-up. Identical or *nearly identical* answers will result in "no credit" for all parties. Solutions sets will be posted on the class Blackboard site.

### **Assignment Submission Policy**

Assignments must be turned in on the due date/time electronically via Blackboard. Any assignment turned in late, even if by only a few minutes, will receive a zero.

***Homework will not be returned.*** Please keep a copy of your homework for reference. Homework assignments are kept in electronic storage in case they are needed for re-grades or grade disputes. Answers to the homework will be posted online for students to evaluate their performance.

There are some legitimate reasons for not turning in homework on time. However, ***you must provide documentation for any such claim.***

### **Exam Absence Policy**

Students are required to be present for both midterm exams and the final exam. If you are not able to take the exams on the dates and times specified in the detailed schedule, you should not take this class.

***There will be no make-up exams.*** However, there are legitimate reasons for missing an exam. If you provide documentation of serious medical problems or crime incidents for missing a midterm exam, the other exam scores will be re-weighted to accommodate the missing score. However, if you miss i) both midterms or ii) the final exam, I will be unable to assign a complete grade to you.

### **Technology Policy**

Personal computers and wireless Internet are a key part of today's technological culture, but they also can distract you from the class discussion and dampen participation. You may bring your laptops/iPads etc to class for taking notes, but please refrain from using it for other purposes.

## **MARSHALL GUIDELINES**

### **Add/Drop Process**

This class will remain open enrollment (R-clearance) for the first three weeks of the semester. If there is an open seat, students will be freely able to add a class using Web Registration throughout the first three weeks of the term. If the class is full, students will need to continue checking Web Registration to see if a seat becomes available. There are no wait lists and the professor cannot add students. See USC guidelines here:

<https://catalogue.usc.edu/academic/>

- Waitlist. There are no centralized wait lists for Marshall undergraduate courses. Although there are no wait lists, the Undergraduate Advising Office provides a system by which students can indicate their interest in enrolling in classes that are currently full in order to track demand and manage classroom space effectively.
- Dropping Students. The professor may drop any student who, without prior consent, does not attend the first two class sessions. The instructor is not required to notify the student that he or she is being dropped.

### **Statement for Students with Disabilities**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. For more information visit: [www.usc.edu/disability](http://www.usc.edu/disability).

### **Statement on Academic Integrity**

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. <http://www.usc.edu/dept/publications/SCAMPUS/gov/>

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/> Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

### **Incomplete Grades**

In incomplete (IN) grade may be assigned due to an "emergency" that occurs after the 12<sup>th</sup> week of classes. An "emergency" is defined as a serious **documented** illness, or a **documented** unforeseen situation that is beyond the student's control, that prevents a student from completing the semester. Prior to the 12<sup>th</sup> week, the student still has the option of dropping the class. Arrangements for completing an IN course should be initiated by the student, and negotiated with the instructor. Class work to complete the course should be completed within one calendar year from the date the IN was assigned. The IN mark will be converted to an F grade should the course not be completed.

## COURSE READINGS/CLASS SESSIONS

Students should read the assigned chapter(s) BEFORE the associated lecture date.

| Class #  | Date                | Topic                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Chapters |
|----------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| 1        | 05/21               | Introduction to Corporate Finance:<br><i>What does a financial manager do? Forms of Business Organization, Goal of Financial Management, Agency Problem, Principal-Agent Problem, Incentives</i>                                                                                                                                                                                                                                                                                                   | 1        |
| 2        | 05/26               | Long Term Planning and Growth:<br><i>Growth as a Goal, Sales Forecast, Pro Forma Statements, Asset Requirements, Percentage of Sales Approach, External Financing and Growth, Internal Growth Rate, Sustainable Growth Rate</i>                                                                                                                                                                                                                                                                    | 4        |
| 3        | 05/28               | Financial Statements:<br><i>Balance Sheet, Income Statement, Average versus marginal tax rates, Operating Cash Flow, Change in Net Working Capital, Standardized Financial Statements, Sources and Uses of Cash, Ratio Analysis</i>                                                                                                                                                                                                                                                                | 2,3      |
| 4        | 06/02               | The Time Value of Money:<br><i>Future Value and Compounding, investing for a single period, compound growth, lump sum versus payments, Present Value and discounting, present versus future value, determining the discount rate, single period present value, lump sum versus payments</i>                                                                                                                                                                                                        | 5        |
|          | 06/02               | <b>Homework 1 Due</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |          |
| 5        | 06/04               | Discounted Cash Flow Valuation:<br><i>Future and Present Values of multiple cash flows, Valuation of Annuities, Perpetual Bonds, Future value of Annuities, Annuities Due, Effective Annual Rates, Calculating and comparing rates, EAR versus APR, Continuous Compounding, Loan Types, Amortization, Pure Discount Loans, Interest Only loans, Amortized Loans</i>                                                                                                                                | 6        |
| 6        | 06/09               | Review for Midterm I                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |          |
| <b>7</b> | <b>06/11</b>        | <b>Midterm I</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |          |
| 8        | 06/15<br>Reschedule | Interest Rates and Bond Valuation:<br><i>Bonds and valuation of bonds, Bond Features, Interest Rate Risk, Default and Credit Risk, Re-investment rate risk, Bond Indenture, Debt or Equity? Long Term Debt, Government Bonds, Corporate Bonds, Mortgage Bonds, Floating Rate bonds, Zero Coupon Bonds, Bond Ratings, Moody's and Standard and Poor's, Investment Grade versus High Yield (Junk) Debt, Real versus nominal rates, Fisher Effect, Term Structure of Interest Rates – Yield Curve</i> | 7        |

| <b>Class #</b> | <b>Date</b>  | <b>Topic</b>                                                                                                                                                                                                                                                                                                                                         | <b>Chapters</b> |
|----------------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 9              | 06/16        | Stock Valuation:<br><i>Zero Growth, Constant Growth Model, Shareholder Rights, Common Stock versus Preferred Stock, Cumulative versus non-cumulative, Dealers and Brokers, NYSE, NASDAQ</i>                                                                                                                                                          | 8               |
| 10             | 06/23        | Net Present Value and Other Investment Criteria:<br><i>NPV estimate, Payback Rule, Internal Rate of Return, Discounted Payback, Profitability Index, Capital Budgeting, Crossover rate, IRR versus NPV, Mutually Exclusive Projects, Nonconventional cash flows, NPV profile, Acceptance and rejection rules for each capital budgeting criteria</i> | 9               |
|                | 06/23        | <b>Homework 2 Due</b>                                                                                                                                                                                                                                                                                                                                |                 |
| 11             | 06/25        | Some Lessons from Capital Market History:<br><i>Returns thru time for different asset classes, Historical record, Risk premiums, variability of returns, average versus geometric, capital market efficiency</i>                                                                                                                                     | 12              |
| 12             | 06/30        | Review for Midterm II                                                                                                                                                                                                                                                                                                                                |                 |
| <b>13</b>      | <b>07/02</b> | <b>Midterm II</b>                                                                                                                                                                                                                                                                                                                                    |                 |
| 14             | 07/07        | Behavioral Finance:<br><i>Biases, Framing effects, Heuristics, Limits to Arbitrage, Bubbles and crashes, Market efficiency and professional money managers</i>                                                                                                                                                                                       | 22              |
| 15             | 07/09        | Return, Risk, and the Security Market Line:<br><i>Expected Returns and variances, portfolio weights and expected returns, unexpected returns, Systematic and unsystematic risk, diversification</i>                                                                                                                                                  | 13              |
| 16             | 07/14        | Return, Risk, and the Security Market Line:<br><i>Systematic risk and beta, Portfolio beta, Security Market Line, Reward to risk ratio, Beta and the risk premium, Capital Asset Pricing Model (CAPM), Cost of Capital</i>                                                                                                                           | 13              |
|                | 07/14        | <b>Homework 3 Due</b>                                                                                                                                                                                                                                                                                                                                |                 |
| 17             | 07/16        | Cost of Capital:<br><i>Cost of Capital, Cost of Equity, Cost of Debt, Cost of Preferred Stock, Weighted Average Cost of Capital, Divisional Cost of Capital, Project Cost of Capital</i>                                                                                                                                                             | 14              |

| <b>Class #</b> | <b>Date</b>  | <b>Topic</b>                                                                                                                                                                                                                                | <b>Chapters</b> |
|----------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 18             | 07/21        | Raising Capital:<br><i>Financing Life Cycle of a firm, selling securities to the public, underwriters, IPOs, IPOs and underpricing, Costs of Issuing securities, Rights Offerings, Dilution, Issuing Long Term Debt, Shelf Registration</i> | 15              |
| 19             | 07/23        | Financial Leverage and Capital Structure Policy:<br><i>Capital Structure Question – Debt or Equity Financing? Effect of Financial leverage, Cost of equity or debt? M&amp;M proposition I&amp;II</i>                                        | 16              |
| 20             | 07/28        | Financial Leverage and Capital Structure Policy:<br><i>M&amp;M proposition I and II with and without corporate taxes, Bankruptcy Costs, Optimal Capital Structure, Bankruptcy liquidation versus reorganization</i>                         | 16              |
|                | 07/28        | <b>Homework 4 Due</b>                                                                                                                                                                                                                       |                 |
| 21             | 07/30        | Dividends and Payout Policy:<br><i>Cash dividends, stock dividends, Low payouts versus high payout ratios, tax and legal benefits, dividend policy, stock repurchase plans, stock splits, reverse splits</i>                                | 17              |
| 22             | 08/04        | Review for Final Exam                                                                                                                                                                                                                       |                 |
| <b>23</b>      | <b>08/06</b> | <b>Final Exam</b>                                                                                                                                                                                                                           |                 |