



Department of Economics and Finance

ECON*3460
Introduction to Finance
Fall 2013



Instructor: Kathleen Rodenburg
Office: MacK 706
Office Hours: Tuesday 1:00-2:00
Thursday 11:00-12:00

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It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

<http://www.uoguelph.ca/economics/node/1115>

COURSE OUTLINE

Course Description:

This course provides an introduction to corporate finance. In this course students will engage in a study of a business's money related decisions, which are essentially all of a business's decisions. Despite its name, corporate finance applies to all businesses, not just corporations. The primary goal of corporate finance is to figure out how to maximize a company's value by making good decisions about investments, financing and dividends. This course assists in answering the following key questions: How should businesses allocate scarce resources to minimize expenses and maximize revenues? How should companies acquire these resources –through stock or bonds, owner capital or bank loans? What should a company do with its profits? How much should it reinvest in the company, and how much should it pay out to its business owners?

Required Materials:

Textbook: Introduction to Corporate Finance, 3rd Edition, by Laurence Booth & Sean Cleary (Wiley, 2013), hereafter referred to as INCF. In lieu of a hard copy text, *this textbook* can be purchased as an eBook or in softcopy, 3 ring binder format.

Assessment

Quizzes (Best 5 out of 6 in class quizzes)	15%
Group Company Project (2-3 per group)	25%
WACC Assignment	10%
Midterm (Thursday, October 15, In-class)	20%
Final examination Dec. 5th from 8:30-10:30 am	30%

Quizzes (15%):

There will be six, 15 minute quizzes. In-class quizzes will be conducted at random at the end of class and are worth 3 marks each. The best 5 out of 6 quizzes will count. Make-up quizzes will not be given. If you miss more than one quiz, it will count as a zero. Quizzes will be based on the content covered during the class that the quiz was conducted.

Company Project (25%):

Your group will be assigned a company and will conduct 1) an external environment assessment (Political, Economic, Social, Technological, Environmental and Legal aspects) that will influence your company's ability to conduct business 2) an industry analysis using Porter's five forces and 3) Internal assessment, both strategic and financial. For the financial analysis you will collect data (financial statements) and perform calculations related to your company. You will be presented with some investment opportunities for your company that you will access using tools learned in the classroom and from this analysis you will make a recommendation for future investments for your company. Information related to this assignment will be distributed separately. There are six due dates assigned to this project:

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|---|-------------------|
| 1. External assessment | September 24 |
| 2. Industry Analysis | October 10 |
| 3. Internal Assessment | |
| ✓ Strategy Analysis | October 22 |
| ✓ Financial Analysis | November 5 |
| 4. New Investment opportunities and Recommendations | November 21 |
| 5. Final Report Submission | Last day of class |

Late assignments will be assessed a 10% penalty per day late. In addition, you will be evaluating your peers' work using the provided assessment tool.

Midterm (20%):

The Midterm exam will be given in class on Thursday, October 17th. Makeup exams will only be given if the student has a documentable illness or compassionate reason for missing the exam. I realize that some students participate in university athletics, university clubs, or have other compelling reasons for not being able to write an exam on that date. Let me know as soon as possible if you have a conflict with the midterm so you can be approved to write the make-up exam.

WACC Analysis (10%):

Broadly speaking, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances. A firm's WACC is the overall required return on the firm as a whole and, as such, it is often used internally by company

directors to determine the economic feasibility of expansionary opportunities and mergers. Students will be provided with an interactive spreadsheet (Drougas, 2012) and will be asked to write a report on the key inputs that influence the WACC calculation. This is a critical topic for this course. By calculating our firms WACC, we have a benchmark in which to measure future investment projects against. If a project's return is less than the companies WACC, even if there is a positive return, the company would be losing more money than it would gain from the investment. This spreadsheet exercise will be a necessary step to completing the final company group project.

Final Exam (30%):

A student who has a time conflict with the final exam should not enroll in the course. The Final exam will cover material from the entire course. Should you miss the final examination, please contact your Program Counselor's office for information on how to proceed. Final Exam timing TBD.

Reading Assignments:

Topics

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|---|----------------------|
| 1. Introduction | INCF, Chapters 1-2 |
| i. Forms of Business organizations | |
| ii. Goals of Financial Management | |
| iii. The Agency Problem | |
| iv. Types of Financial Institutions and their roles | |
| v. Types of Financial Markets and their roles | |
| 2. Financial Analysis | INCF, Chapters 3-4 |
| i. Financial Statement | |
| ii. Taxes | |
| iii. Capital Cost Allowance and Depreciation | |
| iv. Cash Flow and the Relationship between financial statements | |
| v. | |
| 3. Valuation Basics | INCF, Chapters 5-7 |
| i. Time value of money | |
| ii. Discount Cash Flow valuation | |
| iii. Loans & amortization | |
| iv. Bonds | |
| v. Stock Valuation | |
| 4. Long Term Investment Decisions | INCF, Chapters 13-14 |
| i. NPV & IRR | |
| ii. Capital Investment Decisions | |
| iii. Project Analysis and Valuation | |
| iv. WACC | |
| 5. Mergers and Acquisitions | INCF, Chapter 15 |

You will be asked to complete an in class evaluation of this course at some time during the last two weeks of the semester. **The course evaluation for this course will be done in class.** The Department of Economics and Finance policy regarding the conduct and use of these evaluations will be found at:

<http://www.uoguelph.ca/economics/academics/courses/course-evaluation>

The Department of Economics and Finance *Learning Objectives (skills and knowledge competencies)* for this course are:

Skills:

- 1) **Written Communication:** Students will prepare a business report and spreadsheets to **summarize** their results of their company **analysis**.
- 2) **Numerical Problem Solving:** Students will have to perform a variety of financial **analysis** including profitability, liquidity, stability and growth ratios, Present Value **calculations**, Bond and Stock **valuation**, NPV **analysis**, Firm valuation and a firm's Weighted Average Cost of Capital. This will be assessed through quizzes, assignments and exams.
- 3) **Group Work:** Students will **collaborate** as a team to complete an assigned company project. This will be assessed by an in-class peer assessment questionnaire.
- 4) **Problem Solving in a Real World Context:** Students will **collect** data and **apply** the content and analysis learned in the course to an existing company in their company project.
- 5) **Computer Skills:** Students will **collect** data from various financial websites and use **excel** (or some other spreadsheet program) to perform **calculations** in their company **analysis**.
- 6) **Professional and ethical awareness and conduct:** The company analysis will be assessed a penalty of 10% for each day late as a means of ensuring **time management** skills.

Knowledge:

- 1) **Understanding of the role of finance within an organization:** Students will **understand** the critical importance of a business's money related decisions.
- 2) **Financial Analysis Tools:** Students will be able to **understand** and **interpret** a company's financial position by **analyzing** key financial statements. This will be assessed through quizzes, assignments and exams.
- 3) **Understanding of Specific Markets:** Students will **understand** the institutions and workings of primary and secondary stock and bond markets. This will be assessed through quizzes and exams.
- 4) **Historical and Global context:** Students will **analyze** the market trends and external environmental factors that influence business decisions. This will be assessed through a group company project.
- 5) **Corporate Finance and Risk Analysis:** **Analyze** bond and stock valuations. **Understand** Corporate Finance and how risk affects valuations of bonds, stocks, and investment projects. **Calculate** the worth of potential investment projects and **recommend** a best investment option through **comparing** various projects using established benchmarks. This will be assessed through assignments.