**UNIVERSITY OF CONNECTICUT**

**SCHOOL OF BUSINESS**

**FINANCE DEPARTMENT**

**Fall 2012 – Northeast Utilities Program PROFESSOR GOLEC**

**FNCE 5894 Financial Management OFFICE: BUS 455**

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**COURSE DESCRIPTION**

This course explains how managers maximize firm value by raising money (financing) as inexpensively as possible and optimally investing it in corporate assets. To do so, managers need to consider the economic and legal environments, risk, return, and the basic idea that a dollar paid today is worth more than one paid in the future. We will also consider issues related to each topic that the CFO would worry about.

# CAREER FOCUS

This course provides the basics for you to function successfully as member of a finance unit in a corporation. The finance unit provides the analysis of potential projects a company might undertake and is responsible for selling securities to investors to obtain cash to fund the acceptable projects. The basic concepts can also be usefully applied in most other units of the corporation that require analytical skill especially accounting, operations and marketing.

**COURSE OBJECTIVES**

Financial management combines accounting, economics, and statistics concepts into a comprehensive whole. At the close of the course you should understand the techniques required to analyze and select corporate investments and the best methods to finance them. You will learn the following basic tools and concepts that underlie all of finance and how to apply them in the corporate environment.

1. Analyze corporate financial statements and make comparisons between competitor companies.
2. Find data necessary to perform many financial analyses using the Web.
3. Calculate and compare various methods (such as NPV, IRR etc.) of selecting among simple corporate investments.
4. Perform a thorough investment analysis for complex corporate investments.
5. Evaluate and select among various financial instruments for financing corporate investments.
6. Read brokerage reports to understand how the investment community evaluates a company’s performance.

**CLASS MATERIALS**

1. ON CLASS WEBSITE: (1) My Power Point class notes along with homework problems. (2) Homework problem answers are also on the website and can be unlocked with a password after homework is handed in. (3) Short articles from the Wall Street Journal along with class discussion questions.
2. Class Website: [users.business.uconn.edu/jgolec/NU/NU.html](http://users.business.uconn.edu/jgolec/NU/NU.html)
3. TEXT**:** *Corporate Finance: A Focused Approach* Michael Ehrhardt and Eugene Brigham, 4th Edition, South-Western Publishing, 2011, ISBN-10 1439078084.
4. CLASS JOURNAL: Print out the lecture notes or get a notebook and record your questions and observations for class discussions.
5. BROKERAGE REPORTS
6. WALL STREET JOURNAL: Read daily if possible.

**STEPS TO PREPARE FOR EACH CLASS**

1. Complete the homework problems and the short articles questions assigned for the material covered in the previous week’s lecture. Perhaps meet with your team to work together but try to do them on your own first. Be prepared to present your homework problem answers and short article question answers to the class if called upon.

1. On one sheet of paper, write (or preferably type) an answer to one of the homework problems and answers to questions from one of the short articles and hand it in.
2. To prepare for the coming week’s lecture, read my class notes and make sure you understand each question or problem presented in the notes. Record any questions or observations you have on the material and be prepared to present them in class.
3. The class notes are not detailed. For detailed explanations, read the corresponding text chapter(s) assigned in the syllabus and pay attention to the problems worked out there.
4. Construct your case study answer if one is due and be prepared to present it if your team is presenting the case.

**GRADING**

1. CLASS PARTICIPATION 25%
2. 3 TAKE-HOME QUIZZES 60%
3. GROUP CASES 15%
4. CLASS PARTICIPATION - includes your responses to questions and problems from the notes and homework problems. You will receive a grade each class from the following scale -1 (incomprehensible or disruptive), 0 (unprepared or no response), 1 (attempted to participate - raised hand), 2 (asked or answered one question), 3 (asked or answered one question correctly), 4 (asked or answered more than one question correctly or gave one particularly interesting response). You get 2 points for simply handing in answers to one homework problem **and** one short article’s questions. Note that a “2” is still only half of a day’s possible participation points – to get more points you need to also ask or answer a question in class.
5. QUIZZES - Many quiz problems will resemble the homework problems. Others will look somewhat different but still require the same solution methods of the problems covered in class or at the end of the chapters. These problems test whether you have learned the concepts well enough to identify when to use them in a slightly different situation. This approach tests your knowledge of the finance models (i.e., solution rules) as well as your ability to discern when to use them. The quizzes are noncumulative. Good quizzes and assignment answers will be brief, clear, and pertinent.
6. GROUP CASE WRITEUP – groups are graded on a scale from 0 (not handed in or very poorly done) to 5 (makes interesting points). Each group will be responsible for writing up and presenting one of the cases. The purpose of these is to give you practice in applying the concepts covered in class to a more complex real-world problem.
7. STATEMENT OF ACADEMIC INTEGRITY – Cheating of any sort will not be tolerated and will result in a failure of the quiz or assignment, deduction in the class participation grading component, and potential failure of the course. A student who knowingly assists another student in committing an act of academic misconduct shall be equally accountable for the violation, and shall be subject to the sanctions and other remedies described in The Student Code.For details refer to <http://www.dos.uconn.edu/student_code.html>, Appendix A.

**STRUCTURE OF A TYPICAL CLASS**

BEFORE CLASS - students see the material for the first time and can think about the material without being inhibited by other students or the professor. Students are encouraged to think of innovative solutions to questions and problems posed in the notes, text, and on my website.

BEGINNING - students are asked to present their answers to homework problems for the previous week’s topic. Students then answer questions about short articles from major financial news sources. This tests whether the student can apply the concepts covered in lecture to the types of issues that appear regularly in the financial press. This is the third time students see the material which reinforces their pre-class reading and in-class lecture.

MIDDLE - lecture covers the issues and techniques that students commonly find confusing for the particular topic. Students are prodded to show whether they clearly understand by answering questions and solving problems from the notes.

END - Students listen to a presentation from a Northeast Utilities finance executive or a video that illustrates a real-word example of the topic covered that day. Alternatively, students present their cases.

The materials overlap somewhat by design, although for most, the materials are complementary. The combination of lectures, homework problems, short articles, class presentations and discussions and video is meant to accommodate an array of learning styles. Ultimately, you will have to decide which materials work best for you and perhaps focus more closely on some and less on others. This learning approach is reflected in the grading which is distributed over assignments, class participation and quizzes. Quizzes are more highly weighted because they measure your performance under more controlled circumstances (fixed time and individual effort) and thus may be a more accurate gauge of your learning.

Note that for many students, it is important to participate in your group for homework problems and questions about the assigned articles. As in many business tasks, a group economizes each individual’s time by splitting up the work and then working to combine the results into a better final product than any one individual is likely to produce. Each individual learns how to complete the full task but is not involved in every part of the task. To perform well, I expect that the typical student will work about seven hours each week outside of class. Without group participation, the time required is likely to be considerably longer.

As Don Quixote said, “…learning is purchased by time, watching, hunger, nakedness, vertigo, indigestion, and many other conveniences …”(Charles Jarvis, 1866 translation, page 245).

Don tended to overstate things, but suffice it to say that expending significant effort will help you to perform well in this class.

**HINTS**

1. **The work in this course is heavier in the first few weeks** because you must learn the basic concepts that underlie most of the other topics, and you may be new to most of the basic finance models.
2. The crucial rule to good performance in this class is to understand the material covered in class. My lectures and the homework problems show you which concepts I feel are most important. My class notes will be provided to you along with past quiz problems. Try to think and ask questions during the lecture. If you miss writing something down during the lecture you can go back to my notes. The notes are in shorthand form so I will be embellishing them during class.
3. Think through or work out all of the problems and think of how to answer them **before** you look at the answers. For additional problems, try the end-of-chapter problems or the concept checks that appear throughout the text.
4. You can use this course as a way to prepare for taking the **Chartered Financial Analyst (CFA)** exam(s).

The CFA is analogous to the CPA in accounting. It is a globally recognized credential that is now nearly a requirement for a long-term career in finance. To become a CFA, you must pass three exams with the first covering basic concepts, many of which will be covered in this class.

For more details, see http://cfainstitute.org/Pages/index.aspx .

1. If you are struggling on the homework problems, seek help either by phone, email or before class.

**COURSE OUTLINE**

**The first reading for each week is the notes for the relevant topic.** The notes and homework problems on the class website follow the order of the outline below. The outline gives the section name, the assignments, and the activities for each class meeting. Additional reading and problems can be found in the chapters in the text noted for each class. Dates given below are approximate. They assume that no class will be cancelled and that we will cover the material at the usual pace.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Lecture/Case Topic | Presentations, Cases and Videos | Quizzes and Assignments | Text Chapt |
|  |  |  |  |  |
| 8/28 | Introduction to Markets, Interest Rates, and International Flows |  | None | 1 |
|  |  |  |  |  |
| 9/4 | Time Value of Money Basics | Video: Apple Grower | Hand in answers to one problem and one article on interest rates. | 4 |
|  |  |  |  |  |
| 9/11 | Measuring Risk  Bond Ratings | Video: Bernstein on Volatility | Hand in answers to one problem and one article on time value. | 6 |
|  |  |  |  |  |
| 9/18 | Valuing Bonds/Stocks (enterprise valuation)  Case on Bond Ratings | Case: Telus Corporation  Video: Value Investing | Hand in answers to one problem and one article on risk. | 5, 7 |
|  |  |  |  |  |
| 9/25 | Case on Stock Valuation  Start on Capital Structure and Dividend | Speaker: Bud Eckenroth –Rating Agencies - 1.5 hours  Case: FPL Group Inc. | Hand in answers to one problem and one article on bonds and stocks.  **Take-home Quiz 1 is handed out.** | 14,15 |
|  |  |  |  |  |
| 10/2 | Finish Capital Structure and Dividend Policy |  | **Hand in Take-home Quiz 1 – covers topics on 8/28 – 9/11** | 14,15 |
|  |  |  |  |  |
| 10/9 | BREAK | BREAK | **BREAK** |  |
|  |  |  |  |  |
| 10/16 | Cost of Capital  (total shareholder return comparisons) | Speaker: Bud Eckenroth – Capital Structure, Cost of Capital 1.5 hours | Hand in answers to one problem and one article on capital structure and dividend policy. | 9 |
|  |  |  |  |  |
| 10/23 | Case on Cost of Capital  Case on Dividend Policy | Case: Consumer Gas Company  Case: Consolidated Edison Co. | Hand in answers to one problem and one article on cost of capital.  **Take-home Quiz 2 is handed out.** |  |
|  |  |  |  |  |
| 10/30 | Basic Capital Budgeting and Real Options | Video: Dupont’s Methods | **Hand in Take-home Quiz 2 – covers topics on 9/18 – 10/23** | 10 |
|  |  |  |  |  |
| 11/6 | Calculating Cash Flows and NPVs | Speaker: Jim Vancho/Chris Soloperto – Project Analysis | Hand in answers to one problem and one article on capital budgeting. | 11, 8 |
|  |  |  |  |  |
| 11/13 | Case on Net Present Value | Video: Sunco Oilsands  Case: Escondido Power Plant | Hand in answers to one problem and one article on cash flows and NPVs. |  |
|  |  |  |  |  |
| 11/20 | BREAK | BREAK | BREAK |  |
|  |  |  |  |  |
| 11/27 | Financial Analysis and Planning |  |  | 12 |
|  |  |  |  |  |
| 12/4 | Working Capital Management | Speaker: Mike Ausere/John Moreira – Financial Forecasting | Hand in answers to one problem and one article on financial analysis and planning.  **Take-home Quiz 3 is handed out.** | 16 |
|  |  |  |  |  |
| 12/11 | Analysis of CFO Survey Data  Case on Working Capital Management | Case: Dell’s Working Capital  Video: Toronto Maple Leafs  Video: Kurzwiel | **Hand in Quiz 3– covers topics on 10/30 - 12/4** |  |

**Some Simple Rules for Solving Finance Problems**

1. Slow down to avoid confusion - take a deep breath - don't waste time but don't rush.

2. Identify the problem - write the problem type down - example - Present value of an annuity.

- if you can't identify it immediately - write out all the data given in the problem

including the units of measure - example - discount rate = 15 percent = .15

3. If you think you have the problem type but appear to be missing some information, check if

the information you do have can be used to calculate the missing piece.

4. Don't try to solve the whole problem at once - break it down into parts

- write notes on the steps as you go - don't try to save paper.

- take a guess at the solution to the whole or part of the problem so you have

some intuition about what the answer might be - compare with actual solution.

5. Be prepared to stop when you hit a mental block and take a break or go on to try another problem

or try another solution method (even if you put a lot of time into the first one you tried).

- don't waste time and energy on frustration - missing a problem is not

the end of the world - remember, Einstein once flunked math.

6. After you have an answer, ask yourself if it seems reasonable - if it doesn't, check for errors

- if you can't find any errors, leave well enough alone.

# HOW TO USE THE LIBRARY WEBSITE DATABASES FROM A HOME PC

You can access the library’s databases at school directly, but if you are off-campus, you need to set up your browser to use the school’s proxy server. This is a way to identify yourself as a UCONN student so that you can gain access to databases that the school pays for.

Here are the steps to follow.

1. You need your NETID and password.
2. Go to vpn.uconn.edu or to the library website and click on “UCONN Virtual Private Network”
3. Put in your NETID and Password
4. Click on Uconn-Library
5. On the left side of the page you can click on Most Used Data Bases of All Data Bases
6. [If these steps didn’t work, you may have to go to the following website to get the procedure to set up access to the proxy server. <http://helpdesk.uconn.edu/trouble/proxy/proxyconfig.html>].