



Boston College
Wallace E. Carroll School of Management
Spring 2010

MF021 Basic Finance
Section Thursday 4:30 p.m.
<http://www.thomashuse.com/teaching2.htm>

Thomas A. Huse, CPA, MSF
e-mail: huse@bc.edu
OR class@thomashuse.com

COURSE DESCRIPTION: Basic Finance introduces students to the vocabulary and concepts of finance. This course examines financial decision making and provides specific tools for analyzing and interpreting financial data. The goal of the course is to introduce and develop key finance tools and concepts so that they can be used by students in future courses and/or future financial decisions. In addition, the course seeks to show that these key concepts are the basis for many related finance topics.

TEXT:

Fundamentals of Corporate Finance (6th ed.),
by R. Brealey, S. Myers, and A. Marcus, McGraw-Hill Inc., 2009.

PREREQUISITE: Financial Accounting (MA021)

OFFICE HOURS

As I have no office on campus, I have no assigned place to meet with students. I will be available prior to class on the Finance department office or immediately following class; call to arrange time if you wish to reduce the risk of missing me. My telephone number is 617-926-5128. This is my office number and I am usually available from about 8:00 am until 9:00 pm. If I am not there, leave me a message and I get back to you as soon as I can.

GRADING

Two in-class exams - about 60%.
Final exam (cumulative) - about 40%.
End of term project, to be determined later.
The number above would provide the minimum grade

IMPORTANT DATES

Exam #1 – February 25th (in class).
Exam #2 – April 15th (in class).
Final Examination, To be announced.

THE FINAL EXAM IS CUMULATIVE.

STUDY PROBLEMS

Attached is a list of end-of-chapter problems from the chapters we will cover in the course. These are study problems and normally we will not review them in detail during class. Selected problems can be discussed if helpful to the class in general. Solutions to the end-of-chapter problems may be on reserve at the O'Neill Reserve Desk and will be made available on my web site.

Note: There may be random collection of the work to confirm completion by the students. They are even open to being included in the exams.

TUTOR SERVICES

Free tutoring is available to all Basic Finance students. The schedule of tutor hours will be announced in class and posted in the Finance Department.

THE WALL STREET JOURNAL

Throughout the class, current issues covered in *The Journal* may be discussed. Students are encouraged to read *The Journal* throughout the semester as it will reinforce the material covered in class and will expose students to many facets of the business world.

TIME

To best use the limited time in class, a student who misses a class or is late is responsible for getting complete notes (prior to class when possible) from another classmate including:

- announcements
- lecture notes
- discussion notes
- handouts (which may also be obtained from the instructor outside of class)

Some of these items may be posted on BlackBoard Vista as well.

LATE ARRIVALS and ABSENCES

Given the amount of material expected to be covered in each class meeting, a late arrival is significantly better than a missed class. Just be cognizant that your arrival might be distracting and strive for stealth.

Absences are costly in terms of missed material. This is to your detriment. I generally do not take attendance and you need not explain your absence to me. If it was important enough for you to miss the material, then I will presume that you considered that in your decision

Questions a Basic Finance Student Should Be Able to Answer:

1. The Firm and Financial Manager
 - What are the major decisions that a financial manager makes?
 - What objective should the financial manager use – contrast to competing objectives?
 - What problems would allow this objective to hurt other stakeholders?
2. Accounting and Finance
 - Why is there a difference between earnings and cash flow?
 - What's the difference between market value and book value?
3. The Time Value of Money
 - Be sure you can value different streams of cash flows
 - Be able to compare interest rates quoted over different time intervals
4. Security Valuation and Inflation
 - Find the market value of a bond given its yield to maturity
 - Find and interpret the yield given a bond's price
 - Why do bond prices and yields vary inversely (tie in with what Greenspan does)?
 - Be able to calculate, use and explain when we use real interest rates
 - Understand the stock pages and indexes in the *Wall Street Journal*
 - Be able to use the constant growth and multi-stage growth dividend discount models
 - Interpret the P/E ratio
5. Capital Budgeting
 - Be able to calculate and interpret the NPV and IRR of a project
 - Calculate and interpret the modified IRR
 - Identify and calculate the relevant cash flows for a project
 - Be able to discuss and support (qualitatively) the decision to postpone a project
6. Risk, Return and the Opportunity Cost of Capital
 - Be able to define an opportunity cost
 - Interpret a stock return's standard deviation and the effect of diversification on portfolio risk
 - Be able to distinguish between stand-alone risk and market risk
 - Interpret the beta of a security
 - Use beta in estimating a required rate of return for investors

7. The Firm's Cost of Capital
 - Define and calculate a firm's capital structure
 - Discuss the tradeoff to a firm in using debt versus equity financing
 - Calculate the firm's WACC and explain why market value weights are used, not book value weights
 - Determine when the WACC is and isn't the best choice in evaluating a project
8. Corporate Financing and the EMH
 - What does it mean when we say a market is efficient?
 - What are the implications of the EMH for a firm's financing decisions?
 - What are the implications of the EMH for investors?
9. Financial Statement Analysis
 - Interpret financial ratios relating to liquidity, leverage, profitability, and asset use efficiency
 - Use the duPont model to decompose ROE and attribute what the firm is doing well or poorly as a result of your analysis
 - Evaluate the limitations of ratio analysis
10. Financial Planning
 - Construct a simple pro-forma set of financial statements and estimate the external funds needed (available)
 - Estimate the effect of a firm's growth on the need for external financing
11. Working Capital Management and Short-Term Planning
 - Explain why firms need to invest in current assets
 - Explain how firms' long-term financing policies affect short-term financing policies
 - Explain costs and benefits of holding cash and inventory
 - Define and measure float
 - When should you extend credit to a customer?
12. International Finance
 - Understand the difference between spot and forward exchange rates
 - Discuss exchange rate risk, operational hedges and financial hedges
 - Discuss the relationship between exchange rates, inflation rates and interest rates

BASIC FINANCE - COURSE TENTATIVE OUTLINE

Note: These are the planned dates, any deviations will be announced in class.

Week #	Class Dates	Reading Assignment		End of Chapter Problems	
1.	Jan 21	Ch. 1	Firm and Finance Function		
		Ch. 2	The Financial Environment	Ch. 2	14, 15, 20
2.	Jan 28	Ch. 3	Accounting and Finance	Ch. 3	9, 19, 27
		Ch. 4	Corporate performance	Ch. 4	10, 12, 14, 20, 22
3.	Feb 4	Ch. 5	Time value of money	Ch. 5	2, 3, 4, 7, 16, 24
4.	Feb 11	Ch. 6	Valuing Bonds	Ch. 6	6, 16, 17
		Ch. 7	Valuing Stocks	Ch. 7	17, 23, 24, 27
5.	Feb 18	Ch. 11	Intro. to Risk, Return, Opp. Cost	Ch. 11	1, 2, 3, 10, 20
		Ch. 12	Risk and Return	Ch. 12	5, 6, 19, 25, 26

First exam in class February 25th

7.	Mar 11	Ch. 13	Cost of Capital	Ch. 13	3, 5, 11, 15
		Ch. 18	Financial Planning	Ch. 18	1, 10, 13, 18, 23
8.	Mar 18	Ch. 19	Financial Planning	Ch. 19	1, 1, 6, 7, 8
		Ch. 20	Working Capital Management	Ch. 20	5, 7, 19, 21, 22
9.	March 25	Ch. 8	NPV & Other Investment Criteria	Ch. 8	17, 23, 24, 33
		Ch. 9	Discounted Cash Flow Analysis	Ch. 9	4, 15, 17, 23
10.	Apr 8	Ch. 10	Project Analysis	Ch. 10	2, 3, 9, 21
		Ch. 14	Corporate Financing	Ch. 14	2, 7, 9, 11

Second exam in class April 15th

12.	April 22	Ch. 15	Capital, IPOs	Ch. 15	8, 15, 18
		Ch. 16	Debt Policy	Ch. 16	3, 15, 30
13.	April 29	Ch. 17	Payout policy	Ch..17	2, 8, 9, 14
		Ch. 21	Mergers, Acquisitions	Ch. 21	1, 6, 10, 12
14.	May 6	Ch. 22	International Financial	Ch. 22	1, 7, 13, 14, 15
		Ch. 23	Options		

FINAL EXAMINATION Date to be announced