Managerial Finance

Instructor: Professor Stephen E. Christophe, Ph.D., ENT 239, (703) 993-1767, schristo@gmu.edu

This course addresses the theory and practice of financial management. We will focus on the following principal objectives:

1. To provide a solid grounding in some of the basic concepts in finance including the time value of money, project analysis, portfolio theory, asset pricing, and the risk-return tradeoff;
2. To establish a "finance mind-set" that views finance as applied microeconomic within a business context, with value creation as the central concept; and
3. To develop skills for financial analysis, planning and decision-making.

• Although most of the course material concerns private-sector firms, the basic concepts and techniques are also appropriate for decision-making in other types of organizations.

• Class meetings will be conducted using a combination of lecture and case discussion. Each member of the class is expected to prepare thoroughly for each session, and to participate actively in class discussions.

• Grading will be based upon class participation (10%), three graded problem set assignments (15%), four group case analyses (and one case presentation) (30%), a midterm exam (20%), and a comprehensive final exam (25%). All assignments must be submitted on the dates specified. Late submissions will not be accepted.

• Group case analyses must be original work; students are expected to adhere to the Honor Code. If you are unsure, or have questions, about what constitutes an Honor Code violation, please do not hesitate to ask. A Peer Evaluation Form will be distributed at the end of the semester for rating case group members. Ratings will be incorporated when determining final case assignment grades.

• You should obtain a financial calculator capable of performing present value/future value calculations. The Texas Instruments BA II Plus meets these criteria. Many other calculators are also suitable.

Course Materials

Other Recommended Reading
The Wall Street Journal, Business Week, Fortune, Forbes, Barons, etc.

Recommended Reference Books
Brealy and Myers, Principles of Corporate Finance.
Brigham and Gapenski, Financial Management: Theory and Practice.
Learning Goals:

Upon successful completion of this course, you will be able to:
1. Value complex projects, assets and securities.
2. Evaluate, and explain the risk return trade-offs in finance.
3. Conduct a financial analysis of a firm using financial statements.
4. Recognize and understand how to address ethical issues in finance including agency problems.

DRC Statement: If you are a student with a disability and you need academic accommodations, please see the instructor and contact the Disability Resource Center (DRC) at 703-993-2474. All academic accommodations must be arranged through the DRC.

Session Meetings

8/31 Introduction/Financial Statements and Analysis/Time Value of Money
Read Ch. 1, 2, 3, 4
Suggested problems for extra practice (optional): Ch 4: 8, 10, 26, 29, 33, 45, 46, 52, 55, 67, 71

9/7 Time Value of Money, cont’d/Valuing Financial Assets: Bond and Common Stock Valuation Models
Read Ch. 4, 8, 9
For supplemental reading on bond and stock characteristics, read Chs. 15, 20.
Suggested problems for extra practice (optional): Ch 8: 1, 2, 6, 14, 25, 26, and Ch 9: 2, 5, 7, 13, 23, 31

9/14 Evaluating Capital Budgeting Projects, Capital Budgeting Techniques
Read Ch. 5, 6
Suggested problems for extra practice (optional): Ch 5: 1, 5, 10, 11, 14, 23, and Ch 6: 7, 9, 12, 23, 26, 27, 28

Case Presentation: Clarkson Lumber. Purchase case at: http://hbr.org/store

9/21 Capital Budgeting Techniques, cont’d
Read Ch. 6

Problem Set 1 Due
Capital Market History, Portfolio Theory and the Capital Asset Pricing Model (CAPM)

Read Ch. 10, 11

**Problem Set 2 Due**

Suggested problems for extra practice (optional): Ch 11: 3, 6, 11, 13, 23, 25, 27, 29, 34, 36

Portfolio Theory and the Capital Asset Pricing Model (CAPM), cont’d

Read Ch. 11

**Case Analysis: Victoria Chemicals PLC (A): The Merseyside Project.**
Purchase case at: [https://store.darden.virginia.edu](https://store.darden.virginia.edu)

Midterm Exam

Portfolio Theory and the Capital Asset Pricing Model (CAPM), cont’d

Read Ch. 10

Cost of Capital Estimation, Capital Market Efficiency

Read Ch. 13, 14

Suggested problems for extra practice (optional): Ch 13: 3, 8, 11, 14

Capital Structure Theory/Capital Budgeting for the Levered Firm

Read Ch. 16, 17, 18

Suggested problems for extra practice (optional): Ch 16: 14, 17, 23, and Ch 17: 1, 3, 7, 8

**Problem Set 3 Due**

Estimating Required Returns/Capital Budgeting for the Levered Firm, cont’d/Dividend Policy

Read Ch. 18, 19

Suggested problems for extra practice (optional): Ch 19: 4, 7, 14

**Case Analysis: Nike, Inc. Cost of Capital.** Purchase case at: [https://store.darden.virginia.edu](https://store.darden.virginia.edu)

Dividend Policy, cont’d/Options
Read Ch. 19, 22 (pp. 676 – 698)

Suggested problems for extra practice (optional): Ch 22: 3, 6, 10

**Case Analysis: Dividend Policy at FPL Group (no case write-up due).** Purchase case at: [http://hbr.org/store](http://hbr.org/store)

11/30  Hedging Risk with Forwards, Futures, Options and Swaps

Read Ch 25 (pp. 763 – 771, 784 – 790)


Suggested problems for extra practice (optional): Ch 25: 3, 4, 15

12/7  Hedging, cont’d/Special Topics/Course Review

**Case Analysis: Hedging Currency Risk at AIFS.** Purchase case at: [http://hbr.org/store](http://hbr.org/store)

12/14  Final Exam