

MERCER UNIVERSITY
Stetson School of Business and Economics
BAM 612 Corporate Financial Management
Summer 2004

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Class Room: 233 Stetson Hall
Class Time: 5:30-9:45p Tuesdays and Thursdays
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Course Objective:

The main objective of BAM 612 course is to familiarize students with the tools that are used by business managers in financial decision making. To work towards this overall goal some other objectives of the course are

- to provide students with theoretical and practical concepts of corporate finance,
- to explain the relationship between risk and return,
- to explain the underlying importance of time value of money in the various financial management techniques, and
- to discuss other issues that lead to the ultimate goal of maximizing shareholder wealth.

Course Description:

Some of the concepts covered in this course include financial risk and return, capital budgeting, time value of money, valuation of securities, cost of capital, capital structure, dividend policy, and market efficiency.

Prerequisite:

The university catalog lists FIN 362 or an equivalent course as a prerequisite to this course. Some proficiency in math and statistics is expected and will be helpful when dealing with topics such as risk and return, cost of capital, and capital budgeting.

Attendance and Participation:

Class sessions will combine my presentations with class discussion of assigned topics/problems. You are expected to come prepared to class and to take active part in discussions. Attendance and class participation contribute 10% to the final grade.

Required Text Book:

Practical Financial Management, 4th Edition (2005), by William R. Lasher, published by Thomson (South-Western), ISBN: 0-324-26076-8.

Recommended Additional Readings:

1. A Random Walk Down Wall Street- by Burton Malkiel
2. Barbarians at the Gate- by Bryan Burrough and John Helyar
3. The Strategy Game- by Craig Hickman
4. Markets- by Martin Mayer
5. The Deal Decade- by Margaret Blair
6. Learn to Earn- by Lynch and Rothchild

Grading Scheme:

Grades will be determined on the basis of your performance on a mid-term examination, a final examination, a project, and attendance/class participation. The exact breakdown of points is as follows:

Mid-Term Examination	30%
Final Examination	40%
Project	20%
Class Participation	10%

Grade Distribution:

A (90-100) B+ (87-89) B (80-86) C+ (77-79) C (70-76) F (below 70)

Composition of Examinations:

Both examinations will contain a mix of numerical problems and short discussion questions. Some definitions and identification questions may also be included. There will be no multiple choice and true-false questions. The final examination is comprehensive. A make-up examination will result in the loss of one-half letter grade.

Important Dates To Remember:

Project Information	May 20, 2004
Mid-Term Examination	Jun. 3, 2004
Project Report Due	Jun. 17, 2004
Final Examination	Jun. 17, 2004

Documented Disability Statement:

Students with a documented disability should inform me at the close of the first class meeting. I will refer you to the office of Student Support Services (SSS) for consultation regarding evaluation, documentation of your disability, and recommendations for accommodation, if needed. Students will receive from SSS the *Faculty Accommodation Form*. On this form SSS will identify reasonable accommodations for this class. The form must be given to me for signature and then returned to SSS. To take full advantage of disability services, it is recommended that students contact the Office of Student Support Services, immediately. The office is located on the third floor of the Connell Student Center.

Honor Code and Plagiarism:

Dishonesty in any fashion will not be tolerated. Refer to the relevant section of the Mercer catalog for details.

Schedule of Topics to be Covered

A tentative time-table for the topics that will be covered in this course is given below. Any changes will be announced in advance.

<u>Date</u>	<u>Topic</u>	<u>Chapter #s</u>
05/18	Course overview, syllabus discussion What is Corporate Finance	1
05/20	Review of Financial/Managerial Accounting	2-3
05/25	The Financial System	4
	Time Value of Money	5
05/27	Time Value of Money (contd.)	5
	Valuation of Financial Assets	6-7
06/01	Financial Return and Risk	8
	Capital Asset Pricing Model (CAPM)	8
06/03	CAPM (contd.)	8
06/03	Mid-Term Examination	
06/08	Determining a Firm's <i>Weighted Average Cost of Capital</i>	12
06/10	Cash Flow Estimation	10
06/10	Capital Budgeting	9
06/10	Risk Topics in Capital Budgeting	11
06/15	Optimal Capital Structure	13
06/15	Determinants of Dividend Policy	14
06/17	Final Examination Project Report Due	

PROJECT

Weighted Average Cost of Capital of a Firm

Objective of the Project:

The main objective of this project is for the students to become familiar with the concepts of the cost of capital and the weighted average cost of capital. The best way to master a theoretical concept is to apply it to a real-life situation. Moreover, to learn these real world concepts as a team.

Why is it critical for business managers to have a working knowledge of "cost of capital?"

In today's global market economy firms are faced with stiff competitive pressure. They are trying to control and reduce costs wherever possible for all their inputs. Financial capital, undoubtedly, is an important input that drives several, if not the most strategic and operational decisions. Unless the firm knows exactly how much does it really cost to raise the "last" dollar or the "next" dollar, it cannot make financially rational investment decisions.

Most of the financing, investment, and dividend decisions are (should be) made based upon a firm's cost of capital. As such, the concept of cost of capital is key to the success of any financial manager. Moreover, the understanding of this concept would benefit all managers as with this knowledge they can better relate with their colleagues in the finance department.

What is the project?

The project is very simple! You have to select a firm that you are interested in. Based upon the financial information that is publicly available for the firm you have to study its capital structure. Determine the various elements (components) that constitute the firm's capital. Determine the cost of capital for each of these sources. Then compute the weighted cost of capital for the firm.

From where to get the data?

Most of the information and data needed for this project are available from the firm's financial statements, e.g., balance sheet and income statements. These financial statements are obtainable, among other sources, from the firm's annual reports. Market data are also available online, e.g., Yahoo Finance etc.

In case the annual reports and the financial statements for the company of your choice are

not available in the library you may have to directly approach the company. Generally, companies have no objection in providing the data that is needed for this project. *ValueLine Investment Survey*, and publications put out by Moody's (Mergent) and Standard and Poor's also provide useful data. Mercer's main library carries these data sources.

Written Report:

Your grade on the project will be determined on the basis of a written report. This report must be typed double-spaced and should be 5-6 pages, excluding the cover page, appendices, and references. Among other things, the report should contain a title for the project, name of the company, source(s) of your data, year(s) pertaining to the data, and the detailed calculations showing clearly all the steps through the final number(s).

Some general reminders:

1. You are not expected to do a time-series analysis (trend analysis) of the firm's cost of capital. Hence, you do not need several years' data on all variables. For some variables however, you will need data from the past several years. For instance, to compute the cost of common stock you will need to compute the growth rate in dividends for which you will need historical dividend information. Similarly, to estimate the return on the market portfolio and the firm's beta (β) value, you will need data for several years.
2. There cannot be more than two students working on the same team and/or company. In order to avoid redundancy I will approve the firm for each team on a first-come-first-serve basis.
3. It is never too early to start collecting data for the project.
4. Do not hesitate to come to me for help if you need any. It is certainly a good idea to keep me abreast of your progress.
5. Remember that the due date for the project report is the last day of class.