**GEORGETOWN UNIVERSITY**

**SCHOOL OF BUSINESS ADMINISTRATION**

**FINANCE 150: FINANCE FUNDAMENTALS**

**SUMMER 2016**

**SYLLABUS**

**Instructor:** Dr. Thomas B. Sanders

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**Office hours**: TBS

**Course Topics:** Topics typically include capital structure, cost of capital, capital budgeting, dividend policy, security issuance, stock markets, derivative securities, liquidity management, financial planning, and mergers and acquisitions.

**Course Objectives:** Students will use financial valuation methods for making corporate financial decisions, develop an understanding of the issues facing the financial manager, and develop a framework for decision-making in corporate finance. More specifically, students will be exercised in:

* Managing corporate liquidity
* Making capital structure decisions
* Calculating the cost of capital for firms and projects
* Assessing the economic feasibility of new projects and acquisitions
* Deciding between leasing and buying
* Setting dividend policy
* Taking a firm public and issuing new securities

**Materials Needed**:

Packet handed out by instructor. Recommended but not required textbook: **Fundamentals**

**of Finance,** Brigham and Houston, 2016, Cengage Learning.

**Grading**: 50% midterm

50% final

**Exam Redress**: If you are displeased with the manner of grading essays, you are simply to write up your complaint, indicating why you think your answer is correct. Submit your write up together with original exam and I will try my best to see it your way. You are free to verbally argue your case before submitting it in writing. You must redress requests within one week of exam hand back. For practical reasons, the final is not redressable.

**Makeup Exams**: The exam date will be given to you. Please plan your life to avoid missing exams. If you are ill prior to a scheduled exam, you must call me ahead of time indicating your condition. Go to the student health service to obtain written verification of your inability to take the exam. No other excuse is acceptable to miss the exam. Do not come later after the exam indicating you did not make it; you will receive a zero for that exam. Any makeup exams are typically given at the end of the semester during finals. You will need a full medical excuse to take any makeup exam. THUS, ALL MAKEUPS (WITH PROPER EXCUSE) OCCUR AT THE END OF THE COURSE.

**SCHEDULE OF CLASSROOM ACTIVITY**

**MODULE 1: CAPITAL BUDGETING**

NPV, IRR, payback analysis. Deriving cash flows. Why do companies buy fixed assets. How do you propel the stock price. Fundamental valuation theory.

Chapters to be assigned

**MODULE 2: CAPITAL STRUCTURE**

A firm must limit the amount of debt in the balance sheet to assure access to future funds. Equity is also available but at a very high cost. Some say there is an optimal amount of debt and equity that should be used; others say it does not matter. We discuss the theoretical controversy while showing the practicality of computing the degrees of financial leverage, operating leverage, and total leverage. We discuss the trade-off between financial risk and the profit multiplier. The Modigliani-Miller model vs classical capital structure.

Chapters to be assigned

**MODULE 3: COST OF CAPITAL**

The firm’s cost of capital is the long term cost of money. The firm obviously wants to make more than the cost of capital. In doing so, the stock price rises. We cover market-weighted, book-weighted average cost of capital. We use the dividend growth model, CAPM, and the bond plus premium methods for determining the cost of equity capital. Divisional cost of capital.

Chapters to be assigned.

**MODULE 4: SHOULD A FIRM PAY DIVIDENDS**

Should a firm pay any dividend? If so, how much should it be? We cover all the dividend theories and firm dividend policies. Constant dollar, constant percentage, low regular plus extras. Stock dividends and splits.

Chapters to be assigned

**MODULE 5: WORKING CAPITAL ANALYSIS**

Companies go out of business first due to not keeping track of the scheduling of inflows and outflows of cash. For a small firm, the maintenance of adequate liquidity is more important than profits. The cash conversion cycle; commercial paper borrowing. Revolving credits. Optimal receivable terms; optimal inventory holdings. Inventory models. Cost of trade credit.

Chapters to be assigned

**MODULE 6 INVESTMENT BANKING, MERGERS AND ACQUISITION, BANKRUPTCY COSTS**

Underwriting of securities on the capital markets; financial and strategic mergers, synergies; pro forma costs of the bankrupt to be considered at the beginning of any deal.

Chapters to be assigned

MOD**ULE 7 OPTIONS AND FUTURES**

Introduction to the use of derivatives as hedges for balance sheet exposure. Hedge ratios. Cross hedging. Deltas. Fundamental pricing of options and futures.

Chapter to be assigned.