

College of Micronesia - FSM
Division of Business Administration
BU 250 – PRINCIPLES OF FINANCE
Syllabus – Spring 2010

Instructor: Rafael A. Pulmano, CPA, MBA

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Class Schedules: MWF • 3:00-3:55 PM • January 7 - April 30, 2010

Office hours: MWF, 2:00-3:00 PM; TTH, 11:00-12:00 NN; and by appointment

General Course Objective:

Provide the student an in-depth understanding of financial aspects of business such as financial statement analysis, risk and rates of return, time value of money, valuation of bonds and stocks, financial forecasting, working capital policy, credit management, inventory management, short-term financing, and projecting cash flow.

Specific Course Objectives: The student will be able to –

1. Explain the importance of finance in all major disciplines and its usefulness to individuals in their roles as consumers, investors, employees, employers, and citizens.
2. Differentiate between financial and accounting perspectives on the financial balance sheet.
3. Explain the goal of the corporation - shareholder wealth maximization.
4. Explain corporate finance concepts including fixed and residual claims, bonds and stocks, markets, agency problems, and information asymmetry.
5. Explain how product markets, financial markets, and the government create both opportunities and limitations for corporations.
6. Enumerate the characteristics of financial markets.
7. Differentiate between primary and secondary markets and between money and capital markets.
8. Explain the importance of cash flow and describe why net income is not an accurate measure of cash flow.
9. Name and apply several methods to estimate a firm's historical and future cash flows.

10. Solve for the present value or the future value of single cash flows using simple, compound, or continuously compounded interest.
11. Solve for either the number of periods or the interest rate for a single cash flow problem where all other variables are known.
12. Solve multiple cash flow problems by recursively applying the single cash flow technique.
13. Compute annuities, annuities due and perpetuities.
14. Solve for the expected return of a project AND for the price or expected return of a coupon bond and of a share of preferred or common stock.
15. Explain how capital markets, especially stock markets, function.
16. Explain how the risk of diversified portfolios, through the portfolio effect, is reduced to market risk only and describe how in competitive markets, only market risk is reflected in securities prices.
17. Explain the application of beta.
18. Explain the security market line and apply the capital asset pricing model in security pricing.
19. Define the basics of the corporate investment decision.
20. Explain how markets create investment opportunities, what firms must do to capitalize on those opportunities and how investing fits in with corporate strategy.
21. Enumerate various investments that contain options that analysts should consider in project evaluation.
22. Estimate the weights used in the weighted average cost of capital (WACC), based on market values.
23. Estimate the after-tax cost of debt.
24. Estimate the cost of preferred stock.
25. Estimate the cost of equity using three methods: the capital asset pricing model (CAPM) approach, the discounted cash flow approach, and the debt-equity risk premium approach, and adjust these estimates for the costs of raising capital from outside sources.
26. Compute the WACC.
27. Explain the risk-adjusted, discount rate (RADR) and when it should be used instead of the WACC.
28. Estimate an RADR using the pure-play technique.

Textbook:

Foundations of Corporate Finance, 2nd Edition, by Hickman, Hunter, and Byrd. South-Western Publishing: Ohio, 2002. (Chapters 1-8)

Composition of Final Grade:

Homework / Assignments - 15%

Quizzes / Class works - 30%

Midterm Exam - 25%

Final Exam - 30%

Grading:

A	B	C	D	F
90 – 100%	80 – 89%	70 – 79%	60 – 69%	59% & under

Academic Honesty:

Cheating of any form on any assignment, quiz, or exam will result in a zero for that assignment, quiz, or exam AND possibly further disciplinary action. Please read the catalog to familiarize yourself with the entire academic honesty policy.

Attendance:

- The college attendance policy shall be adhered to. Mandatory attendance is at the discretion of the instructor, and it is this instructor's discretion that your seventh (7th) absence will result in automatic withdrawal from the class or an “F”, depending on when it occurs.
- You are expected to come to class having read the material and ready to learn how to apply your newly found knowledge in your environment, regardless of whether you were present or absent during the previous meeting.
- You are also expected to make every effort to take exams when scheduled. There will be no make up quizzes/exams. Graded class works are treated as quizzes. If you miss a class work, exam or quiz for whatever reason, you will automatically get a grade of zero percent (0%) for that particular activity.
- All homework assignments must be turned in on time regardless of attendance. Late assignments will not be accepted.
- If you miss any lesson from lectures, class discussions, handouts or class activities, it is your responsibility to inquire either from me or from your classmates and exert efforts to keep yourself up-to-date.

- At the beginning of each class an Attendance Sheet will be passed around for you to sign. If you come in late, it is your responsibility to approach and let me know you were there to make sure you were not marked absent.
- Extra points will be given based on your participation in seat work, board work and class discussions, asking relevant questions about the lecture material, attendance, and being on time.

Note: *In the interest of achieving course objectives, this syllabus may be changed by the instructor at any time during the course of the semester. However, any such changes shall be communicated to the class promptly.*

COURSE OUTLINE

Day	TOPIC / ACTIVITY
Jan 8 Friday	<p>Topic: Introduction to the course Activity: Pretest; Distribution & Explanation of Syllabi; Introduction to Principles of Finance For Next Meeting: Read Chapter 1, pages 1-11; Chapter Assignment: Answer Chapter 1 Questions #3, 5, 11, 12, 17, 18 25 & 26, pages 22-23 > to be submitted on Friday, January 15.</p>
Jan 11 Monday	<p>Topic: CHAPTER 1 – A Financial Model of the Corporation > Why corporate finance? Corporations: Products, Bonds, Stocks, and People; The Financial Balance Sheet Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 1, pages 11-16.</p>
Jan 13 Wednesday	<p>Topic: CHAPTER 1 (Continue) > The Financial Goal of the Corporation: Management's Job; Creating Wealth, Information Asymmetry Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 1, pages 16-22; Submit Chapter Assignment</p>
Jan 15 Friday	<p>Topic: CHAPTER 1 (Continue) > Agency Costs; Competing Organizational Forms; Corporations and Society Activity: Lecture / Class Discussion; Submit Chapter Assignment due today; Chapter Review For Next Meeting: QUIZ in Chapter 1</p>

Day	TOPIC / ACTIVITY
Jan 18 Monday	<p>Topic: CHAPTER 1 (Assessment) Activity: QUIZ in Chapter 1; (After the Quiz) Review/Discussion of solution For Next Meeting: Read Chapter 2, pages 25-31. Chapter Assignment: Answer Chapter 2 Questions #2, 3, 4, 6, 8, 10, 15 & 16, pages 48-49 > to be submitted on Monday, January 25.</p>
Jan 20 Wednesday	<p>Topic: CHAPTER 2 – Markets, Value, and the Firm > Governments, Corporations, and Markets; Markets and Exchange; Corporations and Markets Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 2, pages 31-42.</p>
Jan 22 Friday	<p>Topic: CHAPTER 2 (Continue) > Financial Markets Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 2, pages 42-47.</p>
Jan 25 Monday	<p>Topic: CHAPTER 2 (Continue) > Financial Markets (<i>Continued</i>); Product Markets; Market Participants and Value Activity: Lecture / Class Discussion For Next Meeting: QUIZ in Chapter 2</p>
Jan 27 Wednesday	<p>Topic: CHAPTER 2 (Assessment) Activity: QUIZ in Chapter 2; (After the Quiz) Review/Discussion of solution For Next Meeting: Read Chapter 3, pages 52-61. Chapter Assignment: Answer Chapter 3 Questions #1, 2, 3, 7, 8, 10, 16, 17 pages 83-84 > to be submitted on Monday, February 8.</p>
Jan 29 Friday	<p>Topic: CHAPTER 3 – Estimating Cash Flows > The Importance of Cash Flow; The Cash Cycle of the Firm Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 3, pages 61-69.</p>
Feb 1 Monday	<p>Topic: CHAPTER 3 (Continue) > Why Accounting Profits and Cash Flows Differ; Translating Accounting Profits Into Cash Flows Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 3, pages 69-77.</p>
Feb 3 Wednesday	<p>Topic: CHAPTER 3 (Continue) > Estimating Cash Flows For a New Project Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 3, pages 77-83.</p>
Feb 5 Friday	<p>Topic: CHAPTER 3 (Continue) > More on the Cash Cycle: The Effect of Growth; When Future Cash Flows Are Not Certain: Computing Expected Cash Flows; When Cash Flows Are Not in Dollars Activity: Lecture / Class Discussion; Illustration For Next Meeting: Submit Chapter 3 Assignment; Class work; Chapter Review</p>

Day	TOPIC / ACTIVITY
Feb 8 Monday	Topic: CHAPTER 3 (Continue) Activity: Submission of Chapter Assignment due today; Class works; Chapter Review For Next Meeting: QUIZ in Chapter 3
Feb 10 Wednesday	Topic: CHAPTER 3 (Assessment) Activity: QUIZ in Chapter 3; (After the Quiz) Review/Discussion of solution For Next Meeting: Read Chapter 4, pages 100-104. Chapter Assignment: Solve Chapter 4 Problems #1, 3, 5, 10, 11, 26, pages 126-129 > to be submitted on Monday, February 22.
Feb 12 Friday	Topic: CHAPTER 4 – Time is Money > The Time Value of Money; Compound and Simple Interest Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 4, pages 104-112.
Feb 15 Monday	Topic: CHAPTER 4 (Continue) > The Time Value of a Single Cash Flow Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 4, pages 112-121.
Feb 17 Wednesday	Topic: CHAPTER 4 (Continue) > Valuing Multiple Cash Flows Activity: Lecture / Class Discussion; Illustration For Next Meeting: Submit Chapter Assignment; Class work; Chapter Review
Feb 19 Friday	NO CLASS - Staff Development Day
Feb 22 Monday	Topic: CHAPTER 4 (Continue) Activity: Submission of Chapter Assignment due today; Class work; Chapter Review For Next Meeting: QUIZ in Chapter 4
Feb 24 Wednesday	Topic: CHAPTER 4 (Assessment) Activity: QUIZ in Chapter 4; (After the Quiz) Review/Discussion of solution For Next Meeting: MIDTERM EXAMINATION
Feb 26 Friday	Topic: CHAPTERS 1-4 (Midterm Assessment) Activity: MIDTERM EXAMINATION For Next Meeting: Review/Discussion of solution to Midterm Examination
Mar 1 Monday	Topic: CHAPTERS 1-4 (Assessment Review) Activity: Review/Discussion of solution to Midterm Examination For Next Meeting: Read Chapter 5, pages 137-140 Chapter Assignment: Solve Chapter 5 Problems #1, 2, 3, 4, 5, 9, 10, 19, pages 154-156 > to be submitted on Wednesday, March 10.

Day	TOPIC / ACTIVITY
Mar 3 Wednesday	Topic: CHAPTER 5 – Time Value Applications: Security Valuations and Expected Returns; Single Cash Flow: Zero Coupon Bonds; Perpetuity Application: Preferred Stock Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 5, pages 141-144.
Mar 5 Friday	Topic: CHAPTER 5 (Continue) > Common Stock: A Growing Perpetuity; Common Stock: Non-constant Growth Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 5, pages 144-151.
Mar 8 Monday	Topic: CHAPTER 5 (Continue) > Bonds: An Annuity and a Single Cash Flow; Solving for Expected Returns Activity: Lecture / Class Discussion; Illustration For Next Meeting: Submit Chapter Assignment; Class work; Chapter Review
Mar 10 Wednesday	Topic: CHAPTER 5 (Continue) Activity: Submission of Chapter Assignment due today; Class work; Chapter Review For Next Meeting:
Mar 12 Friday	Topic: CHAPTER 5 (Assessment) Activity: QUIZ in Chapter 5; (After the Quiz) Review/Discussion of solution For Next Meeting: Read Chapter 6, pages 158-165. Chapter Assignment: Answer Chapter 6 Questions #1, 2, 4, 5, 8, 18, 23, 26 pages 192-194 > to be submitted on Friday, March 26.
Mar 15 Monday	Topic: CHAPTER 6 – Risk and Return in the Capital Markets: Risk and Return in the Stock Market Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 6, pages 165-177.
Mar 17 Wednesday	Topic: CHAPTER 6 (Continue) > Portfolio Risk and Return Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 6, pages 177-184.
Mar 19 Friday	Topic: CHAPTER 6 (Continue) > Adding Stocks to a Portfolio to Reduce Risk; A Brief Review of Portfolios and a Few Key Points; The Risk of Stocks in Portfolios Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 6, pages 184-191.
Mar 22 Monday	Topic: CHAPTER 6 (Continue) > Risk and Return of Individual Securities Activity: Lecture / Class Discussion; Illustration For Next Meeting: Class work
Mar 24 Wednesday	Topic: CHAPTER 6 (Continue) Activity: Class work For Next Meeting: Submit Chapter Assignment; More class work; Chapter Review

Day	TOPIC / ACTIVITY
Mar 26 Friday	Topic: CHAPTER 6 (Continue) Activity: Submission of Chapter Assignment due today; More class work; Chapter Review For Next Meeting: QUIZ in Chapter 6
Mar 29 Monday	Topic: CHAPTER 6 (Assessment) Activity: QUIZ in Chapter 6; (After the Quiz) Review/Discussion of solution For Next Meeting: Read Chapter 7, pages 210-217. Chapter Assignment: Solve Chapter 7 Problems #1, 3, 5, 7, 11, 25 pages 248-255 > to be submitted on Friday, April 16.
Mar 31 Wednesday	NO CLASS - Holiday (Cultural Day) / Easter Recess for Students
Apr 2 Friday	NO CLASS - Easter Recess for Students
Apr 5 Monday	Topic: CHAPTER 7 – Capital Budgeting: Investing to Create Value: Linking Corporate Investments to Value Creation; Project Selection Activity: Lecture / Class Discussion For Next Meeting: Continue reading Chapter 7, pages 217-223.
Apr 7 Wednesday	Topic: CHAPTER 7 (Continue) > Estimating Project Cash Flows Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 7, pages 223-228
Apr 9 Friday	Topic: CHAPTER 7 (Continue) > Analyzing the Pogo Harness Project Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 7, pages 228-232.
Apr 12 Monday	Topic: CHAPTER 7 (Continue) > Mutually Exclusive Projects; Payback as an Alternative to NPV and IRR Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 7, pages 232-241.
Apr 14 Wednesday	Topic: CHAPTER 7 (Continue) > Options in Capital Projects; Real Options Activity: Lecture / Class Discussion; Illustration For Next Meeting: Submit Chapter Assignment; Class work; Chapter Review
Apr 16 Friday	Topic: CHAPTER 7 (Continue) Activity: Submission of Chapter Assignment due today; Class work; Chapter Review For Next Meeting: QUIZ in Chapter 7

Day	TOPIC / ACTIVITY
Apr 19 Monday	<p>Topic: CHAPTER 7 (Assessment) Activity: QUIZ in Chapter 7; (After the Quiz) Review/Discussion of solution For Next Meeting: Read Chapter 8, pages 258-266. Chapter Assignment: Answer Chapter 8 Questions #1, 2, 3, 4, 5 & 6 pages 175-176; also, Solve Chapter 8 Problem #9, pages 280-281 > to be submitted on Wednesday, April 28.</p>
Apr 21 Wednesday	<p>Topic: CHAPTER 8 – Cost of Capital: Estimating the Discount Rate; The Weighted Average Cost of Capital (Part 1) Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 8, pages 267-271.</p>
Apr 23 Friday	<p>Topic: CHAPTER 8 (Continue) > The Weighted Average Cost of Capital (Part 2) Activity: Lecture / Class Discussion; Illustration For Next Meeting: Continue reading Chapter 8, pages 271-275.</p>
Apr 26 Monday	<p>Topic: CHAPTER 8 (Continue) > Estimating the Discount Rate for Individual Projects Activity: Lecture / Class Discussion; Illustration For Next Meeting: Submit Chapter Assignment; Class work; Chapter Review</p>
Apr 28 Wednesday	<p>Topic: CHAPTER 8 (Continue) Activity: Submission of Chapter Assignment due today; Class work; Chapter Review For Next Meeting: QUIZ in Chapter 8; Review</p>
Apr 30 Friday	<p>Topic: CHAPTER 8 (Assessment) Activity: QUIZ in Chapter 8; (After the Quiz) Review/Discussion of solution For Next Meeting: FINAL EXAMINATION</p>
May 5	<p>FINAL EXAMINATION Wednesday, 2:15 – 4:15 PM</p>