

MGMT 610
Financial Management I
Fall 2008
Module 2
Professors John J. McConnell and Mark D. Walker

This course is the first half of a 2-course introduction to Financial Management. The objective of the two courses is to provide you with the conceptual framework necessary to appreciate and understand the problems facing the financial manager of an operating business. Readings, case analysis, and problem sets focus on the basic tools used by financial analysts and financial decision makers.

The two courses are devoted to the two basic financial problems that all companies face: (1) On what should funds be spent (i.e., investment decisions)? and (2) From where should funds be obtained (i.e., financing decisions)?

In the first 7-week module (MGMT 610), we consider such topics as financial statement analysis, financial planning, stock and bond valuation, term structure of interest rates, and project analysis (i.e., capital budgeting).

The textbook is: Stephen A. Ross, Randolph W. Westerfield, and Jeffrey Jaffe, *Corporate Finance*, Eighth Edition, McGraw-Hill/Irwin, 2008. However, you may also use the Seventh Edition of the same book as there are relatively few changes in the Eighth Edition.

There is also a packet of cases, problem sets, and readings for the course which you can pick up at the BoilerCopyMaker, Purdue Memorial Union, Room 157.

Course grades will be based on class participation, a quiz, and a final exam. The weights for each of these are:

Class participation:	25%
Quiz:	20%
Homework:	5%
Final exam:	50%

In the event of a major campus emergency, course requirements, deadlines and grading percentages are subject to changes that may be necessitated by a revised semester calendar or other circumstances. Here are ways to get information about changes in this course. Katalyst, email addresses: mconnj@purdue.edu or mdwalker@purdue.edu, and office phone numbers: 494-5910 or 494-8616.

The quiz will be “open-book.” You may use any notes or books for the quiz. The final exam is not “open-book,” but you will be allowed one “crib sheet” for the exam. It can be no larger than

normal 8.5" × 11" paper; you may write or type on both sides of the paper; no post-it notes; no multiple layers on one page.

You will be allowed to use a financial calculator during the final exam and quiz. The use of laptop computers and personal data assistants (PDA) will not be allowed during the exam and quiz.

You are encouraged to work in teams to complete daily assignments, but you should come to class prepared to discuss your solution independently to cases and problem sets.

Your class participation grades will be posted weekly on Katalyst. Please check your grades periodically. Should you have a question concerning your grades, please contact your professor. The suggested target grade point average in the Krannert School for core courses is 3.35. The final grade distribution for this course will be very close to that targeted suggestion.

Offices and phone numbers are:

Professor John J. McConnell
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Office hours are:

Monday 4:30pm - 6:00pm
Wednesday 4:30pm - 6:00pm
or by appointment

Monday 1:30pm - 3:00pm
Wednesday 1:30pm - 3:00pm
or by appointment

You may also submit questions to either Professor McConnell or Professor Walker via e-mail.

Secretaries are:

Janet Yoakum (Professor McConnell)
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The following outline gives the topics to be covered, reading assignments, problem sets, and case assignments for each day. The notation (CP) stands for case packet and (RWJ) stands for the textbook by Ross, Westerfield, and Jaffe.

Class Participation

Our approach to attaching a grade to class participation for MGMT 610 is as follows:

At the end of each class period, we assign each student a score of 1, 2, or 3. We assess the scores after each class with the intent of taking into account both the quality and quantity of each student's participation for the day. We recognize that not every student will be able to participate every day, so we expect to have some 1's.

If a student is absent, the student will be assigned a zero for the day. If a student is excused from class with reason for any day, for that day, the student will be assigned the average grade of his or her grades for other days minus 0.5. This will be assessed at the end of the module. Prior to the end of semester, a grade of zero will be assigned for those days.

We will post the class participation scores weekly on Katalyst (<http://katalyst.mgmt.purdue.edu/>). At the end of the module, a total numerical score will be calculated by summing the daily scores.

Hints on Class Participation

What factors contribute to the overall quality of class participation?

1. Being present (unless excused for a reason).
2. Getting to class on time (ready to go when the class begins).
3. Being prepared to respond to questions asked by the instructor or your colleagues.
4. Being able to support responses to the questions you give (i.e., if you prepared the solution to a problem in a group, you personally should be able to explain how the group arrived at the solution).
5. Being willing and able to constructively and critically evaluate and respond to your classmates' contributions.

The list is not prioritized, i.e., simply showing up for class will not be sufficient to merit high marks for class participation. In the parlance of economics, it is a necessary, but not sufficient, condition to doing well in class participation.

Excused Absence

If you expect to be absent from class for any day, please send an e-mail message to your instructor prior to class if possible.

Daily Class Schedule

Wednesday, October 22, 2008

Topic: Financial Analysis

Reading: Chapter 1 and pp. 43-63 (RWJ)

In your case packet is a document titled “Financial Planning, Financial Ratios, and Pro Forma Financial Statements” (CP). Please read pp. 1-2 plus the Appendix for this class session.

Case: Who’s Who In Business? (CP)

Assignment: Please see the case for the assignment.

Goal: To understand how financial ratios are used and how accounting data reflect corporate financial policies.

Monday, October 27, 2008

Topic: The Statement of Cash Flows

Study Hint: First, read the handouts in the case packet. Second, try to work the case. Third, read the material in the textbook. Fourth, complete the case assignment.

Reading: Financial Planning, Financial Ratios, and Pro Forma Financial Statements (CP). Please read pp. 1-2 and pp. 6-10 plus the Appendix.
The Implicit Cost of Trade Credit (CP)
Chapter 2 (RWJ)

Case: Bildrite, Inc. (CP)

Assignment: Please see the case for the assignment.

Goal: To understand the use of the Statement of Cash Flows and to gain further understanding of financial ratio analysis.

Wednesday, October 29, 2008

Topic: Financial Planning: Projecting Funds Needs

Study Hint: First, read the handouts in the CP. Second, try to work the case. Third, read the textbook assignment. Fourth, finish the case.

Reading: Financial Planning, Financial Ratios and Pro Forma Financial Statements (CP). Please read pp. 1-8.
Chapter 3 (RWJ)

Case: Sports & More, Inc. (CP)

Assignment: Please see the case for the assignment. Answer questions 1-7 in the case.

Goal: To understand how a company’s financial plan is shaped by the company’s operating strategy.

Monday, November 3, 2008

- Topic:** Financial Planning: Projecting Seasonal Funds Needs
Reading: Pp. 745-757 and pp. 759-760 (RWJ)
Case: Candle Light Company, Inc. (CP)
Assignment: Please see the case for the assignment.
Goal: To understand how seasonal patterns of activity affect a company's financial plan.

Wednesday, November 5, 2008

- Topic:** Review of Financial Analysis and Financial Planning
Assignment: Complete Sports & More, Inc. Answer questions 8-10 in the case. Review and be prepared to discuss Bildrite, Inc., Sports & More, Inc., and Candle Light Company, Inc.
Goal: To continue to develop an understanding of financial planning.
Quiz: A quiz of about 25 minutes will be given at the end of class. The quiz is open-book and open-notes. This quiz will encompass material covered in MGMT 610 up to and including November 5, 2008.

Monday, November 10, 2008

- Topic:** Time Value of Money: Net Present Value and Bond Valuation
Reading: Chapter 4 (RWJ)
Assignment: Problem Set #1 (CP)
Hint: In solving the problems, write out the cash flows period-by-period or year-by-year.
Goal: To understand the process of compounding interest rates, discounting cash flows, and bond valuation.

Wednesday, November 12, 2008

- Topic:** Time Value of Money: Common Stock Valuation
Reading: Pp. 108-117 and Chapter 5 (RWJ)
Hint: In solving the problems, write out the cash flows period-by-period or year-by-year.
Assignment: Problem Set #2 (CP)
Goal: To understand stock valuation.

Monday, November 17, 2008

- Topic:** The Term Structure of Interest Rates
Reading: The Term Structure of Interest Rates, Spot Rates, and Yield to Maturity (CP)
Case: Harrington Financial (CP) -- To be distributed in class
Assignment: Please see the case for the assignment.
Goal: To understand bond yields and the term structure of interest rate.

Wednesday, November 19, 2008

- Topic:** Project Analysis and Capital Budgeting: The Basics Part I
- Reading:** Pp. 161-180 and pp. 197-213 (RWJ)
Capital Investment Analysis: A How-To-Do-It Guide for Project Analysis (CP)
- Assignment:** Problem Set #3 (CP)
Problems 3, 5, and 6 are to be handed in to be graded. You may work on these in teams of no more than 4 people and turn in a single solution with all names on the single solution. You will receive a common grade.
- Goal:** To gain an understanding of techniques used in project analyses and capital budgeting.

Monday, November 24, 2008

- Topic:** Project Analysis and Capital Budgeting: The Basics Part II
- Reading:** Pp. 161-180 and pp. 197-213 plus p. 215 (RWJ)
Capital Investment Analysis: A How-To-Do-It Guide for Project Analysis (CP)
- Case:** Utter Pradesh Products, Inc. (CP)
Salvador Motors, Inc. (CP)
- Assignment:** Please see the cases for the assignment.
- Goal:** To gain an understanding of incremental cost and revenue in capital project analysis.

Wednesday, November 26, 2008

- Topic:** No Class -- Thanksgiving Break

Monday, December 1, 2008

- Topic:** Project Analysis: Make vs. Buy Decisions
- Case:** Prospect Plastics & Supply Co. (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To understand the role of incremental cash flows in a complex situation.

Wednesday, December 3, 2008

- Topic:** Project Analysis in a Complex Setting
- Case:** The Lite Project (CP)
- Goal:** To understand complex issues in capital project analysis.

Monday, December 8, 2008

- Topic:** Capital Budgeting with a Capital Constraint
- Case:** T. Lucterhand & Co., Inc. (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To understand capital budgeting under capital rationing.

Wednesday, December 10, 2008

Topic: Capital Budgeting with a Capital Constraint (continued)

Reading: Chapter 10 (RWJ)

Case: T. Lucterhand & Co., Inc. (continued) (CP)

Assignment: Please see the case for the assignment.

Goal: To understand capital budgeting under capital rationing.

Monday-Friday, December 15-19, 2008

Final Exam