This course is an introduction to Financial Management, approached from the view of a general manager. The objective of the course is to provide you with the conceptual and practical framework necessary to evaluate the financial impact of operating decisions. Readings, case analysis, and problem sets focus on the basic tools used by financial analysts and financial decision makers.

The course is 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 this course, we consider such topics as financial statement analysis, financial planning, stock and bond valuation, project analysis (i.e., capital budgeting), estimating and using the cost of capital in practice, understanding the differences among financing alternatives, understanding financing decisions, and estimating the value of an operating business.


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

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

- Class participation: 25%
- Quiz 1: 15%
- Quiz 2: 15%
- Final exam: 45%

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: mcconnj@purdue.edu or sullivaa@purdue.edu and office phone numbers: 494-5910 or 494-4382.

The quizzes will be “open-book.” You may use any notes or books for the quizzes. The final exam is not “open-book,” but you will be allowed two “crib sheets” for the exam. They can be
You will be allowed to use a financial calculator during the final exam and quizzes. 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 to cases and problem sets independently.

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:

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Office hours are:

Monday 4:30pm - 6:00pm
Wednesday 4:30pm - 6:00pm
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You may also submit questions to either Professor McConnell or Professor Sullivan via e-mail.

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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 (https://webapps.krannert.purdue.edu/kap/). 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 21, 2009
- **Topic:** Financial Analysis
- **Reading:** Chapter 1 and pp. 43-63 (RWJ)  
  In your case packet is a reading titled “Financial Planning, Financial Ratios, and Pro Forma Financial Statements” (CP). Please read pp. 1-2 and pp. 6-10 plus the Appendix.
- **Case:** Cooper & Johnson, Inc. (CP)
- **Assignment:** Please see the case for the assignment.
- **Goal:** To understand how financial ratios are calculated and how they reflect corporate financial policies.

#### Thursday, October 22, 2009
- **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)  
  The Implicit Cost of Trade Credit (CP)  
  Chapter 2 (RWJ)
- **Case:** Cooper & Johnson, Inc. (CP) (continued)
- **Assignment:** Please see the case for the assignment.
- **Goal:** To use the Statement of Cash Flows to diagnose operating performance and to gain further understanding of financial ratio analysis.

#### Monday, October 26, 2009
- **Topic:** Financial Planning: Projecting Funds Needs for a Growth Company
- **Study Hint:** First, read the handouts in the CP. Second, try to work the case. Third, read the textbook assignment. Fourth, finish the case.
  Pp. 64-79 (RWJ)
- **Case:** Davis A-1 Water Gear, Inc. (CP)
- **Assignment:** Please see the case for the assignment. Answer questions 1-8 in the case.
- **Goal:** To understand how a company’s financial plan is shaped by the company’s operating strategy.

#### Wednesday, October 28, 2009
- **Topic:** Financial Planning: Projecting Seasonal Funds Needs
- **Reading:** Pp. 745-757, pp. 759-760 and pp. 795-807 (RWJ)
- **Case:** Holiday Supply, Inc. (CP)
- **Assignment:** Please see the case for the assignment.
- **Goal:** To understand how seasonal patterns of activity affect a company’s financial plan.
Thursday, October 29, 2009

**Topic:** Financial Planning: Long-Term Forecasts  
**Case:** Complete Davis A-1 Water Gear, Inc. Answer questions 9-12 in the case.  
**Goal:** To develop an understanding of long-term 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 to date.

Monday, November 2, 2009

**Topic:** Time Value of Money: Bond Valuation  
**Reading:** Pp. 89-108 (RWJ)  
**Case:** Problem Set #1 (CP)  
**Hint:** In solving the problems, write out the cash flows period-by-period or year-by-year. In solving these problems, please use the present value tables on pp. 895-899 of RWJ.  
**Goal:** To understand the process of compounding interest rates, discounting cash flows, and bond valuation.

Wednesday, November 4, 2009

**Topic:** Time Value of Money: Common Stock Valuation  
**Reading:** Pp. 108-117 and Chapter 5 (RWJ)  
**Case:** Problem Set #2 (CP)  
**Hint:** In solving the problems, write out the cash flows period-by-period or year-by-year. In solving these problems, please use the present value tables on pp. 895-899 of RWJ.  
**Discussion:** Please read “Capital Investment Analysis: A How-To-Do-It Guide for Project Analysis” (CP). Please bring this Note to class. We will discuss this in class.  
**Goal:** To understand the basics of stock valuation.

Thursday, November 5, 2009

**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)  
**Case:** Begin Problem Set #3 (CP)  
**Hint:** In solving these problems, use the “How-To-Do-It Guide for Project Analysis” as a framework.  
**Goal:** To gain an understanding of techniques used in project analyses and capital budgeting.
Monday, November 9, 2009

**Topic:** Project Analysis and Capital Budgeting: The Basics Part I - continued

**Reading:** Capital Investment Analysis: A How-To-Do-It Guide for Project Analysis (CP)

**Case:** Problem Set #3 (CP) - continued

**Goal:** To gain a further appreciation of techniques used in project analysis and capital budgeting.

**Quiz:** A quiz of about 25 minutes will be given at the end of class. The quiz will be open-book and open-notes. This quiz will cover bond and stock valuation and the basics of project analysis.

Wednesday, November 11, 2009

**Topic:** Project Analysis and Capital Budgeting: The Basics Part II

**Reading:** Pp. 161-180 and pp. 197-213 plus p. 215 (RWJ)

**Case:** Wisconsin Wire Works, Inc. (CP)

**Assignment:** Please see the cases for the assignment.

**Goal:** To gain an understanding of incremental cost and revenue in capital project analysis.

Thursday, November 12, 2009

**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 source of expected cash flows and the importance of incremental cash flows.

Monday, November 16, 2009

**Topic:** Project Analysis in a Complex Setting

**Case:** Sweet-Treats Corporation (CP)

**Assignment:** Please see the case for the assignment.

**Goal:** To further understand incremental cash flows in a complex setting.

Wednesday, November 18, 2009

**Topic:** Risk and Return in Capital Markets - Part I

**Reading:** Pp. 256-273 plus Appendix 9A and pp. 279-293 (RWJ)

**Lecture:** Portfolios and Diversification of Risk

**Assignment:** Problem Set #4 (CP)

**Goal:** To gain an understanding of the fundamentals of portfolio analysis.
Thursday, November 19, 2009
   Topic:  Risk and Return in Capital Markets - Part II
   Lecture:  The CAPM and the Cost of Equity Capital
   Reading:  Pp. 293-311 (RWJ)
   Assignment:  Problem Set #5 (CP)
   Goal:  To develop a conceptual framework for measuring the cost of equity capital.

Monday, November 23, 2009
   Topic:  Estimating the Cost of Equity Capital
   Reading:  Pp. 342-353
   Case:  Standard Drilling Equipment, Inc. (CP)
   Assignment:  Please see the case for the assignment.
   Goal:  To understand the role of diversification and systematic risk in estimating divisional cost of equity capital.

Wednesday, November 25, 2009
   Topic:  No Class -- Thanksgiving Break

Thursday, November 26, 2009
   Topic:  No Class -- Thanksgiving Break

Monday, November 30, 2009
   Topic:  The Weighted Average Cost of Capital
   Reading:  Pp. 352-358 (RWJ)
            How to Unlever Betas – and Why (CP)
   Case:  Yangzi Limited (CP)
   Assignment:  Please see the case for the assignment.
   Goal:  To understand the estimation and use of the weighted average cost of capital and the use of multiple discount rates within the same company.

Wednesday, December 2, 2009
   Topic:  Financial Market Efficiency and Corporate Financing Decisions
   Reading:  Pp. 368-397 and pp. 405-419 (RWJ)
   Lecture:  The Efficient Market Hypothesis, Financing Patterns, and the M&M Propositions
   Assignment:  Discussion Questions on Market Efficiency (CP)
            Notes on Capital Structure Policy:  The Debt Policy Puzzle (CP)
            Please bring “Notes on Capital Structure:  The Debt Policy Puzzle” to class.
   Goal:  To understand some fundamental concepts in corporate financing strategy.

Thursday, December 3, 2009
   Topic:  Managing Corporate Capital Structure:  Theory
   Reading:  P. 397, pp. 423-447 and pp. 455-469 (RWJ)
   Lecture:  Identifying an Optimal Capital Structure
   Assignment:  Please bring “Notes on Capital Structure:  The Debt Policy Puzzle” to class.
   Goal:  To appreciate the valuation consequences of financing decisions.
**Monday, December 7, 2009**

**Topic:** Managing Corporate Capital Structure: Practice  
**Case:** Heartland Electronics Corp. (CP)  
**Assignment:** Please see the case for the assignment.  
**Goal:** To apply capital structure theory in practice.

**Wednesday, December 9, 2009**

**Topic:** Managing Corporate Capital Structure: Practice - continued  
**Case:** Heartland Electronics Corp. (CP) (continued)  
**Assignment:** Please see the case for the assignment.  
**Goal:** To apply capital structure theory in practice.

**Thursday, December 10, 2009**

**Topic:** Corporate Valuation: The WACC Approach  
**Reading:** Pp. 812-839 and pp. 835-841 (RWJ)  
**Case:** Lucky Streak, Inc. (CP)  
**Assignment:** Please see the case for the assignment.  
**Goal:** To understand the WACC method of corporate valuation.

**Monday-Friday, December 14-18, 2009**

Final Exam, Date and Time To Be Determined