BUS 331  
BUSINESS FINANCE  
SPRING 2013  

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Office: 1475 Sage Hall  
Office Hours: MWF 10:15-11:30  

COURSE DESCRIPTION: Business Finance is an introduction to finance in the private sector. The student is introduced to financial decision-making within a valuation context.

COURSE OBJECTIVE: The objective of the course is to stimulate the student to think. Specifically, I hope to stimulate students to think about the financial problems of firms and the resolution of these problems.

Bus 331 is a required component of the BBA Core curriculum. In addition to the objective listed above, the experience of Bus 331 will enhance the student’s ability to:

1. Apply ethical principles to the financial problems of firms.
2. Understand the role of diversity in the analysis of financial problems of firms.
3. Assess global business issues.

GRADING: Four (4) equal-weighted 100-point exams accounting for 77% of the course grade will be given. Each exam may consist of short-answer essays, word problems, and multiple-choice questions. Each exam will cover only material presented in class since the previous exam. The third exam is not comprehensive. MAKE-UP EXAMS ARE NOT GIVEN.

HOMEWORK: 100 points (19% of course grade) of homework will be graded. Graded homework is due in class at the beginning of class. No late homework will be accepted for grading.

Four percent of the course grade (21 points) will be based upon the student’s Contribution to the course. A seating chart will be used in the class. Based on the seating chart, attendance will be taken at the beginning of class. If you are not in your seat at the start of class, you are absent. Punctuality is a virtue. It is extremely difficult to make a contribution to the course if students are not attending the course. Students can make a contribution to the course in a number of different ways including: (1) asking relevant questions about a course topic (e.g., how does topic relates to a current event), (2) volunteering to answer questions from the professor addressed to the class, (3) correctly answering a question from the professor addressed to the student, (4) answering questions from other students addressed to the professor, (5) asking a relevant question about a course topic by e-mail or during professor’s office hours, (6) providing professor with current article on a course topic, and (7) participation in small group discussions. NOTE, THAT SIMPLY BEING IN CLASS IS NOT CONTRIBUTION TO THE CLASS.

Additional assignments will be required and will consist of reading for understanding selected text chapters, reading other assigned readings and, working end-of-chapter problems. Homework is a learning tool. Homework and additional assignments are indicative of exam problems/questions. I expect everyone to have completed the assignments and to be able to discuss the assignments. If my expectations regarding assignments are not met, assignments will be collected and graded as part of the contribution grade.

Historically, the cutoffs between course letter grades have come at the following:

- 88% or better; A
- 78% -- 87%; B
- 68% -- 77%; C
- 65% -- 67%; D
- < 65%; F

Note the small D range. This is a core course in the BBA program. Each student must perform at a basic minimal level.
All students are subject in their behavior to the University of Wisconsin Administrative Code, as well as specific disciplinary procedures duly adopted by the UW Oshkosh campus.

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<td>EXAM #1 TESTING CENTER: Wednesday and Thursday, Feb 26, 27</td>
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LEARNING OBJECTIVES OF EACH TOPIC

Chapter 1: OVERVIEW OF FINANCIAL MANAGEMENT
a. Answer the question, “What is Finance?”
b. State the primary goal of a publicly traded firm and explain how social responsibility and business ethics fit within that goal.
c. Define an agency relationship, give examples of agency problems, and identify possible solutions

Chapter 2: FINANCIAL ENVIRONMENT; MKTS, INSTITUTIONS & INTEREST RATES
a. Explain the role and importance of financial markets
b. Describe and differentiate the primary means of capital formation
c. Describe and differentiate types of markets
d. Identify and describe some of the most important financial instruments
e. Describe, differentiate, and calculate the determinants of market rates of return

Chapter 5: TIME VALUE OF MONEY
a. Convert TVM problems from words to time lines
b. Explain the relationship between compounding and discounting, between future and present value
c. Solve for FV, PV, time, or interest rate given the other variables
d. Find the FV and PV of annuities
e. Explain the difference between a regular and annuity due
f. Distinguish and between nominal rate, periodic rate, and effective rate and properly choose between securities with different compounding periods.

Chapter 8: RISK AND RATES OF RETURN
a. Define dollar return and rate of return
b. Define and differentiate between actual and expected return
c. Define and differentiate between expected and required return
d. Define risk and calculate the expected rate of return, standard deviation, and coefficient of variation for a probability distribution.
e. Specify how risk aversion influences market equilibrium and required rates of return
f. Define diversifiable risk and market risk; explain which of these is relevant to a well-diversified investor
g. Explain the significance of a stock’s beta coefficient
h. List and explain how changes in the market or within a firm that would cause the required rate of return on the firm’s stock to change

Chapter 7: BONDS AND THEIR VALUATION
a. Identify the key characteristics common to all bonds
b. Calculate the value of a bond with semiannual interest payments
c. Explain the relationship between interest rates and bond prices
d. Calculate the current yield, yield to maturity, and yield to call on a bond
e. Differentiate between interest rate risk, reinvestment rate risk, and default risk
f. List major types of corporate bonds and distinguish among them
g. Explain the importance of bond ratings and list some of the criteria used to rate bonds

Chapter 9: STOCKS AND THEIR VALUATION
a. Identify the key characteristics of common stock
b. Calculate the value of a share of common stock when:
   1. dividends are expected to grow at some constant rate
   2. dividends are expected to grow at some non-constant growth rate
c. calculate the expected rate of return on a constant growth stock
d. Explain the following terms: Equilibrium, Efficient Markets Hypothesis

e. Distinguish among the three levels of market efficiency

f. Explain the implications of the EMH on financial decisions

Chapter 10: THE COST OF CAPITAL

a. Explain what is meant by a firm’s required rate of return and weighted average cost of capital

b. Calculate the weighted average cost of capital

c. Explain why retained earnings are not a free source of financing

d. Explain why the cost new common equity is higher than the cost of retained earnings

e. Explain how and why the weighted average cost of capital might change over time

Chapter 11: THE BASICS OF CAPITAL BUDGETING

a. Define capital budgeting and the capital budgeting process

b. Explain why capital budgeting is important, and state how project proposals are generally classified

c. Calculate payback period, discounted payback period, net present value, and internal rate of return for a given project and evaluate each method

d. Define net present value profiles,

e. Explain the rationale behind the NPV and IRR methods, their reinvestment rate assumptions, and which method is better when evaluating independent versus mutually exclusive projects

f. Calculate the Modified Internal Rate of Return for a project

Chapter 3: FINANCIAL STATEMENTS, CASH FLOW AND TAXES

a. Explain the difference between Net Income and Net Cash Flow

b. Explain the following terms and know how to calculate these terms:
   1. net operating working capital
   2. operating assets
   3. operating capital
   4. net operating profit after taxes
   5. Earnings Before Interest and Taxes, EBIT
   6. Economic Value Added, EVA
   7. Market Value Added, MVA

Chapter 4: ANALYSIS OF FINANCIAL STATEMENTS

a. Explain why ratio analysis is usually the first step in the analysis of a company’s financial statements

b. Describe how the Du Pont equation is used, and how it may be modified to include the effect of financial leverage

c. Use Du Pont equation to do an analysis of financial statements

d. Use the Du Pont equation to explain how managerial decisions impact financial ratios

Chapter 15: WORKING CAPITAL MANAGEMENT

a. Explain the risk/return trade-off of working capital management

b. Distinguish among relaxed, restricted, and moderate current asset investment policies, and explain the effect of each on risk/return trade-off

c. Calculate the cash conversion cycle

d. Explain the relationship between the cash conversion cycle and working capital management

e. Explain how a negative cash conversion cycle works