Southeast Missouri State University

Harrison College of Business | Course No: BA668

Course: The Financial Environment

I. **Course Description**: The course will cover the two dominant points of view that comprise the financial environment. Managers "inside the firm looking out" raise capital and deploy company assets in a manner that they believe maximizes the market value of the firm for a given risk level. In contrast, the investment community "on the outside looking in" is the final arbiter of whether or not managerial decision making is consistent with the wealth maximization of stockholders and creditors.
Three graduate credit hours.

II. **Prerequisite**: Admission To The MBA Program

III. **Purpose and Objectives of the Course**: Upon completion of this course the MBA student should understand how financial managers evaluate asset acquisitions and how financial markets allocate capital to the most efficient firms.

IV. **Course Content**: The course will consist of lecture and discussion of textbook reading assignments and an outside reading list. In addition to a midterm and final exam, grades will be determined on the basis of Excel spreadsheet cases, a computer problem on portfolio risk, and the financial analysis of a company of the students choosing. The cases, risk problem and financial analysis will be prepared using Microsoft Office.

V. **Course Outline (Class Hours):**

A. Introduction To The Financial Environment (3)

B. Inside The Firm Looking Out
   1. Chief Financial Officer In the Corporate Organizational Structure.
      a. Agency Problems and the Stockholder-Creditor-Manager Relationship.
      b. The Corporate Charter and Corporate Governance.
      c. Investor Relations.
   2. Review of Financial Statements (6)
      a. Balance Sheet
      b. Income Statement
      c. Cash Flow Statement
      d. Ratio Analysis
      e. Pro Forma Financial Statements
      f. Financial Forecasting.
      g. Case 1
   3. Sources of Firm Finance (6)
      a. Bank Loans

    b. Corporate Bond Market
    c. Equity Market
    d. Initial Public Offerings
    e. Private Placements
    f. Venture Capital.
4. The Cost of Firm Finance (3)
    a. Leverage and Capital Structure
    b. The Market Value of Debt and Equity.
    c. The Cost of Capital
5. Capital Projects-The Optimal Capital Budget & Market Value of the Firm (6)
    a. Review of Capital Budgeting Technique
    b. Cash Flow Estimation.
    c. Capital Project Risk.
    d. Abandonment Decisions.
    e. Capital Rationing and Corporate Control.
    f. Merger and Acquisition As A Capital Budgeting Decision
    g. Corporate Culture, Project Champions and Capital Budgeting Bias.
    h. Case 2

C. Midterm Exam

D. Outside The Firm Looking In
1. The Security and Exchange Commission and the Regulatory Environment For Publicly Traded Corporations. (6)
    a. Investor Clientele and Company Ownership.
    b. Individual/Institutional Investors.
    c. The Investment Process.
    d. Investment Policy Statements.
2. Risk Aversion and The Marginal Utility of Wealth. (2)
    a. Life Cycle and Behavioral Models of Risk.
3. Risk Pricing-Stand Alone Risk Versus Portfolio Risk. (4)
    a. The Capital Asset Pricing Model and Arbitrage Pricing Theory.
    b. Risk Adjusted Performance Measurement.
    c. Risk Pricing and The Evolution of Financial Derivatives.
    d. Value At Risk (VAR)-J.P. Morgan Internet Example
    e. Computer Project
4. Modern Portfolio Theory (MPT) and the Efficient Markets Hypothesis (EMH)
    a. How Financial Markets Process Information (3)
        i. Earnings Announcements
        ii. Volatility Clustering
        iii. Financial Contagion.
    b. Implications of MPT and EMH for Passive Versus Active Investment Management. (3)

5. The Top Down Approach To Financial Analysis
    a. Macro-Industry-Company Analyses.
    b. Growth Versus Value Investing.
    c. Financial Analysis Paper.
6. Technology and Trends In Financial Markets-Linkage between (3)
    a. International Financial Markets
    b. Financial Regulation
    c. Global Integration.

E. Final Exam

Total: 45

VI. Textbook: Finance-Zvi Bodie and Robert Merton, Prentice Hall.

VII. Basis for Evaluation:

A. Midterm Exam (30%)

B. Final Exam (30%)

C. Case 1: Pro Forma Financial Statements (10%)

D. Case 2: Capital Budgeting (10%)

E. Computer Problem On Risk Management (10%)

F. Top-Down Financial Analysis (10%)

VIII. Reading List (Will Vary Depending On The Instructor)

A. Buffet, Warren. "Mr. Market And You," **Classics In Investment Analysis-CFA Series**.

B. "Commentary: Day Trading", **Business Week**, August 16, 1999.

C. "Day Trading: A Heck of A Way To Make a Living--Or Not", **U.S. News and World Report**, September 27, 1999.

D. Chan and Lakonishok. "Are the Reports of Beta's Death Premature?", **Journal of Portfolio Management**, 19,4, 1993.

E. Chaney, P. "Moral Hazard and Capital Budgeting" **Journal of Financial Research**, 12, 2, summer, 1989.

F. Devaney, M. "Risk, Commitment and Project Abandonment," **Journal of Business Ethics**, February, 1991.

G. Devaney, M and D. Kunz. "Value Investing and the Clientele Effect: Predicting Individual Stock Ownership With Neural Networks," **Financial Technology**. Edited by Institutional Investor Journals, June 1999.

H. Devaney, M. "ETI's And Social Investing Are Two Sides of the Same Coin," **Pensions & Investments**, September 15, 1997

I. Dobson and Dorsey. "Reputation, Information, and Project Termination in Capital Budgeting," **The Engineering Economist**, 38,2, 1993.

J. Hall and Hofer. "Venture Capitalists Decision Criteria in New Venture Evaluation" **Journal of Business Venturing**, 8,1 1993.

K. Pizzani, L. "Web Offerings Lure Small Business" **Bank Technology News**, March, 1999.