### Finance 445 (Sections 1 and 2)
#### Spring Semester 2002
#### Capital Investment and Financing Decisions
#### School of Management, University of Kentucky

| Classroom | Gatton Business and Economics Bldg., Room 215 (Section 1)  
|           | Gatton Business and Economics Bldg., Room 315 (Section 2)  
| Meeting time | Monday / Wednesday, 8:00 – 9:15 p.m. (Section 1)  
|             | Monday / Wednesday, 2:00 – 3:15 p.m. (Section 2)  
| Instructor | Jack Cooney  
| Office | Gatton Business and Economics Bldg., Room 445J  
| Office phone | (859) 257-1934  
| Office Hours | Mon / Wed, 9:30 – 10:30 a.m., 3:30 – 5:00 p.m., and by appointment.  
| Email and Web | jcooney@uky.edu; http://www.uky.edu/~jcooney/fin445/fin445.html  
| Description | This is an advanced course in corporate finance. Its objective is to provide the student with the conceptual framework necessary to appreciate and understand how a corporate financial manager should make capital investment and financing decisions. To achieve this objective, we will use a combination of class lecture and student discussion. Computer problem sets will be used to reinforce the concepts discussed in class. Topics include:  
|             | *Capital investment decisions* - project evaluation techniques, estimation of project cash flows, working capital requirements, project risk assessment, cost of capital, international projects, the value of information, the effects of competition, and evaluation of project performance  
|             | *Financing decisions* – corporate financing sources, capital-structure policy, the interaction of capital investment and financing decisions, dividend policy, leasing, and mergers.  
| Class notes | You can retrieve the notes and other class material (saved as Adobe pdf and Microsoft Word and Excel files) from the class web site. A link to Adobe reader is available on my web site as a free download.  
| Prerequisites | Finance 300 (Corporation Finance) with a grade of “C” or better.  
| Grades | Your class grade will be calculated based on 400 points.  

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| Exam 1 (February 13, 2002) | 100 points  
| Exam 2 (March 27, 2002) | 100 points  
| Exam 3 (Final exam week) | 100 points  
| Nine quizzes | 5 points each, 40 points total (best 8 of 9)  
| Six computer problem sets | 10 points each, 60 points total  
| **Total** | 400 points  

Scores are rounded to the nearest integer. For instance, 359.49 is a “B” and 359.50 is an “A.”

<table>
<thead>
<tr>
<th>Points</th>
<th>Grade</th>
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<tbody>
<tr>
<td>360 - 359</td>
<td>A</td>
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| 280 - 319 | C | Under 200 points = E  
| 320 - 359 | B | 200 - 279 points = D  

| Class curve | Scores will be curved at the end of the semester based the difficulty of the exams, quizzes, and computer problem sets and on my overall impression of the class performance. Any curve will be non-negative and will be applied to all students. For example, if the curve is 3 points and your raw score for the semester is 318 points, your curved score will be 321 points and you will receive a “B” for the course. However, if your raw score is 314 points, the 3-point curve will give you a curved score of 317 points. Your final grade will be a “C” in this second example. The curve will not be announced until after the final exam has been graded.  

Extra credit

To encourage careful study, two points of extra credit will be given to any student that identifies a typographical error in the textbook or other class material. The typographical error must be more substantial than a grammatical or spelling error. For example, credit will be given for incorrect solutions to problems, missing (and necessary) assumptions needed to solve a problem, and the like. Only the first person to find the error will receive credit. I will keep a list of errors on the class web page. In addition, students can receive two points by attending at least one of the FMA meetings or the FMA field trip. (An alternative will be available to students with scheduling conflicts.) Students can receive up to a maximum of four extra credit points that will be added to the combined scores from the exams, quizzes, computer problem sets, and class curve (if any).

Attendance

You are expected to attend every scheduled class, adequately prepared to participate in the class discussion. Classes will generally last the entire 1:15 minutes. To encourage class participation, I will sometimes award students with “participation points” for answering especially difficult questions, or asking especially insightful questions. A student can accumulate up to two participation points. In addition, I will keep a record of attendance and use this record for administrative reports, letters of recommendations, and student counseling. However, other than exams and quizzes (and participation points), classroom attendance will not directly affect your grade (i.e., there are no points assigned for attendance). Since you are responsible for any material or announcements made in class, make sure you talk to a fellow student or me after any missed class. Make-ups for exams and quizzes are discussed below.

Exams

The exams will consist of multiple choice and short answer / problem questions. (The third exam is typically all multiple choice.) Please note that the exams will be difficult to finish and will contain a mixture of easy and hard questions. (These hard questions involve an understanding beyond mere memorization of the material.) Partial credit is possible for short answer / problem questions. However, multiple choice questions will be graded credit/no-credit.

Chapter review questions and practice problems will accompany each chapter's notes. Also a review sheet will be distributed before each exam. Computer problem sets also provide a good review for the examinations. Finally, a practice exam covering the material from the first third of the class (roughly the material covered on the first exam) is available on the class web site. This practice exam will give you a good example of my testing style. Practice exams covering the remainder of the course material will not be available.

Exams will be given during the regular class hour. The third exam will be given during the final exam week. The three exams will be non-comprehensive and will be roughly the same length and difficulty. Exams are closed book/notes. However, you will be allowed to bring a “crib sheet” (two 8 1/2” x 11” sheets of paper, no restrictions on content) and a present / future value table. Of course, you should bring a calculator (those with financial functions are strongly recommended). Calculator manuals are also allowed.

Quizzes

Nine quizzes will be given during the semester (see schedule below). Each quiz will be given during the last 5 - 10 minutes of the class, be worth five points, and will typically have two credit / no-credit questions. Quiz questions will be similar to the multiple-choice exam questions. Unless notified in advance, the quiz will cover material discussed in the previous two - three classes. All quizzes are open-book, open-notes. I will automatically drop your lowest quiz score. Therefore, only the top 8 quiz scores will be counted towards your final grade.

Problem sets

Six computer problem sets will be assigned. (Unlike traditional ‘case study’ analysis, computer problem sets allow for a more focused application of the concepts taught in this course.) With each assignment, you will use a spreadsheet computer program to solve a series of financial problems. The selection of the particular spreadsheet program is up to you. However, I am most familiar with Microsoft Excel and may not be able to provide assistance with other spreadsheet programs.

You are expected to turn in a professionally written “solution” to the problem set including a one-two page executive summary of the problem, your main results, and your recommendations (if applicable). Attached pages will provide your detailed analysis and answers to the problems presented in the assignment.
Answers must be printed on a computer printer or typed. If (under unusual circumstances) you cannot turn in a paper copy, I will accept a faxed (257-9688) or emailed Word or Excel document with the solutions.

You are strongly encouraged to work in groups on the problem sets. Please form your own groups (four student maximum) and turn in one paper for the whole group. You are also encouraged to help students outside your group and to compare your answers with other group’s answers.

All students in the group will receive the same score (without regard to who works, and who is responsible for a high or low score). Therefore, you should carefully consider whom you want in your group. If, after forming the group, you feel that one of the group members is not adequately participating, you can drop that person from the group. (You should let this person know at least a couple of days before the assignment’s due date.)

Absences

The following are acceptable reasons to miss an exam or quiz: 1) serious illness, 2) illness or death of a family member, 3) University-related trips (see S.R. 5.2.4.2.C), and 4) major religious holidays. Students anticipating absence for a major religious holiday during Spring semester 2002 must notify me in writing prior to January 16, 2002. Information regarding dates of major religious holidays may be obtained through the religious liaison, Mr. Jake Karnes (257-2754). In addition, to the above list, I will excuse a student from an exam or quiz for other important reasons (e.g., a job interview, family wedding). However, it is your responsibility to inform me of the reason for the absence preferably in advance, but no later than one week afterwards (S.R. 5.2.4.2.D). You should talk to me if you are not sure if your reason for missing class will be excused. You can leave a message on my phone (or email me) if I am not in my office. The burden of proof is upon you to provide sufficient documentation about the nature of any excusable absence.

When there is an excused absence, you will be given the opportunity to make up the missed exam. Excused quizzes will receive a score equal to the average of your other quiz scores. Unexcused absences for an exam or quiz will receive a score of zero. Computer problem sets will be distributed at least two weeks before the due date. Therefore, if you know in advance that you will need to miss class on the due date for a computer problem set, I expect you to turn in your assignment early rather than late. Unexcused late computer problem sets can still be turned in for full credit one day after the due date (through 5 p.m.). This will give you time to resolve any unanticipated problems (e.g., a broken printer, busy computer lab). If the assignment is turned in after this date and time, your score will be reduced by 2 points (20% of the 10 point total) for each additional 24 hour period (not including Saturdays, Sundays, and school holidays) down to a score of zero. Therefore, no computer problem set will receive credit six school days after the original due date. I will strictly enforce the due dates and times!

The third exam is scheduled for final exam week. My policy for make-up exams also applies to the final exam. Therefore, do not make any plans to leave town until after your scheduled time for the final exam.

Email

Class announcements may be e-mailed to you during the semester. Check you email account frequently!

Grade errors

If you feel that I gave you an incorrect score on an exam, quiz, or problem set, you must submit a written complaint detailing your position within one week of the date the exam, quiz, or problem set is handed back to the students. With respect to the final exam or your final grade, university regulations require me to keep grading material for one year. However, it would be best to resolve any grading errors early next semester.

Cheating

Plagiarism and cheating are serious offenses and may be punished with failure in the course, and/or expulsion from the university. For more information refer to Student Rights and Responsibilities.

Withdrawals

You can drop this class up until January 30, 2002 without the course appearing on your transcript. February 6, 2002 is the last day to drop the course and receive a partial refund. March 8, 2002 is the last day to withdraw from the course other than for ‘urgent non-academic reasons.’ It is important for
you to decide before these dates whether you want to remain in the course. Please meet with me if you have any questions about your grade.

**Incomplete**

An incomplete will be granted only in the most unusual circumstances and is not permitted simply to avoid a low grade. If you would like to (confidentially) discuss problems you are having with me, do so as soon as possible (and in particular) before exams.

**Disabilities**

If you have any condition, such as a physical or learning disability, that will make it difficult for you to carry out the work as I have outlined it, or that will require academic accommodations, please notify me in the first two weeks of the course.

**Evaluation**

I am very interested in making this course a successful learning experience and want to provide an easy method for you to give me feedback on my teaching, the text, tests, quizzes and assignments. Therefore, after the first exam, I would like you to fill out a mid-semester course evaluation. Hopefully this will allow us to make any necessary mid-course corrections.

**Tentative Course Schedule**

<table>
<thead>
<tr>
<th>Days</th>
<th>Monday</th>
<th>Wednesday</th>
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<tbody>
<tr>
<td>1. Jan 7, Jan 9</td>
<td>No Class</td>
<td>Chapter 1 – 2</td>
</tr>
<tr>
<td>2. Jan 14, Jan 16</td>
<td>Chapter 1 – 2</td>
<td>Chapter 5</td>
</tr>
<tr>
<td>3. Jan 21, Jan 23</td>
<td>No Class – MLK Day</td>
<td>Chapter 6 – Quiz 1</td>
</tr>
<tr>
<td>4. Jan 28, Jan 30</td>
<td>Chapter 6 – Quiz 2</td>
<td>Chapter 6 – Quiz 3</td>
</tr>
<tr>
<td>5. Feb 4, Feb 6</td>
<td>Chapter 6 – Quiz 4</td>
<td>First Exam</td>
</tr>
<tr>
<td>6. Feb 11, Feb 13</td>
<td>Chapter 6</td>
<td></td>
</tr>
<tr>
<td>7. Feb 18, Feb 20</td>
<td>Chapter 7 – 8 – Quiz 5</td>
<td>Chapter 7 – 8</td>
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<tr>
<td>8. Feb 25, Feb 27</td>
<td>Chapter 9 – Quiz 6</td>
<td>Chapter 9</td>
</tr>
<tr>
<td>9. Mar 4, Mar 6</td>
<td>Chapter 9 – Quiz 7</td>
<td>Chapter 9</td>
</tr>
<tr>
<td>10. Mar 11, Mar 13</td>
<td>No Class - Spring Break</td>
<td>No Class - Spring Break</td>
</tr>
<tr>
<td>11. Mar 18, Mar 20</td>
<td>Chapter 9 – Quiz 8</td>
<td>Chapter 10</td>
</tr>
<tr>
<td>12. Mar 25, Mar 27</td>
<td>Chapter 10</td>
<td>Second Exam</td>
</tr>
<tr>
<td>13. Apr 1, Apr 3</td>
<td>Chapter 11 – Quiz 9</td>
<td>Chapter 12</td>
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<tr>
<td>14. Apr 8, Apr 10</td>
<td>Chapter 13 – Quiz 10</td>
<td>Chapter 17</td>
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<tr>
<td>15. Apr 15, Apr 17</td>
<td>Chapter 17 – Quiz 11</td>
<td>Chapter 18</td>
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<tr>
<td>16. Apr 22, Apr 24</td>
<td>Chapter 18</td>
<td>Chapters 19, 16, 26, 33</td>
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<tr>
<td>17. Apr 29, May 2</td>
<td>Third Exam (Section 1, 5/2/02, 10:30 am, Section 2, 4/29/02, 1:00 pm</td>
<td>No Class - Spring Break</td>
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**Number of Lectures/Topic**

1. (2) Chapters 1 - 2 – Goal of the firm, time value of money, basic valuation
2. (1) Chapter 5 – Capital budgeting techniques
3. (6) Chapter 6 – Making investment decisions using the NPV rule
4. (2) Chapters 7 and 8 – Overview of risk and return
5. (5) Chapter 9 – Capital budgeting and risky cash flows
6. (2) Chapter 10 – The value of information, sensitivity analysis, Monte Carlo simulations, etc.
7. (1) Chapter 11 – Where do positive NPV projects come from?
8. (1) Chapter 12 – Evaluating project performance
9. (1) Chapter 13 – Market efficiency
10. (2) Chapter 17 – Capital structure - basics
11. (2) Chapter 18 – Capital structure - advanced
12. (1/4) Chapter 19 – Interactions of Investment and Financing Decisions
13. (1/4) Chapter 16 – Dividend Policy
14. (1/4) Chapter 26 – Leasing
15. (1/4) Chapter 33 – Mergers
16. (3) Exams

Total 29 Lecture Days / Exams