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  

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)  
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)  
b. Risk Adjusted Performance Measurement.  
d. Value At Risk (VAR)-J.P. Morgan Internet Example  
e. Computer Project  

4. Modern Portfolio Theory (MPT) and the Efficient Markets Hypothesis (EMH)  
   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
   b. Growth Versus Value Investing.
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


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)


