

BOSTON UNIVERSITY SCHOOL OF MANAGEMENT

FE 722 FINANCIAL MANAGEMENT

SPRING 2018 COURSE SYLLABUS

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Office Hours: Thursdays 5.00 PM– 6.00 PM or by appointment

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Office Hours: Wednesdays 5:00 PM – 5:50 PM

Additional Office Hours: Mondays and Thursdays 5:00 PM – 5:50 PM

Room: Graduate Students Lounge

COURSE OBJECTIVES

The course is comprised of four parts. The first is devoted to basic principles of finance: how to make financial claims comparable and how to value them. In the second part, the standard ‘time value of money’ tools are applied to capital budgeting and to the valuation of bonds and stocks. The third part develops the tools to analyze risk and return of a single asset and of a collection of assets (a portfolio). Then, these tools are applied in an integrated way to capital budgeting problems. The course concludes with the fourth part, where we cover the behavior of financial markets.

The objectives of this class are to introduce the set of concepts that will help you organize your thinking about how to allocate resources over time and a set of quantitative models to help you evaluate alternatives, make decisions, and implement them. The same basic concepts and quantitative models apply at all levels of decision-making, from your personal decision to buy a car or save for retirement, to the decision of a CFO of a major corporation to enter a new business.

You will obtain basic knowledge and practical tools to:

- Understand and calculate arbitrage free prices (“no free lunch”)
- Use and apply the concepts of time value of money
- Make rational saving and borrowing decisions as an informed individual
- Make investment and capital budgeting decisions for a firm
- Value stocks and bonds
- Understand the value of diversification
- Calculate the risk and return for securities and portfolios

COURSE MATERIALS

Text Book: *Corporate Finance* by Berk and DeMarzo, 4rd Ed., Pearson/Addison-Wesley, 2017 (including the MyFinanceLab access kit). A **cheaper** alternative is the access card option (ISBN 9780134099170).

Financial Calculator: HP 10bII Financial Calculator, either as a physical calculator or as an app (available for iPhones/iPads and Androids). I use this model to describe keystrokes to solve financial problems in class, but other financial calculators are acceptable. Keep in mind that I may not be familiar with your particular calculator. During the midterm and the final exams, you will be allowed to use the physical calculator only.

Course Website: Almost all course information and materials are available to you on SMGtools. Please make sure to download the lecture notes and other readings before every class.

PERFORMANCE EVALUATION

Performance evaluation will be based on two examinations and exercises. The weights put on each of these components when computing the final grade are as follows:

Midterm exam: 30%
Final exam: 40%
MyFinanceLab exercises: 20%
Participation: 10%

Examinations: Examinations are **non-cumulative**, in the sense that each one will concentrate on the material covered during the pertinent dates covered by that exam. (Obviously, certain terms, concepts and skills carry throughout the course.) There are no make-ups for the exams without an appropriate excuse. Advance notification or a written medical excuse is required for excused absence at an exam. An unexcused absence will result in a zero score for the test.

Exercises: Assignments for the relevant chapters are available at www.myfinancelab.com. You get access to exercises by registering at www.myfinancelab.com (**Course ID:** palazzo76246, **Course Name:** FE 722 Spring 2018 Wednesday). The exercises are essential in helping you to learn the topics of the course and preparing for the exams. There will be a total of 11 MyFinanceLab assignments. Submissions are due nine to ten days after the corresponding class, so you have at least one weekend to complete them. I will consider only 10 assignments out of 11 to calculate the homework grade (i.e., you can skip one assignment without being penalized). For each question in the assignments, you will have at most two attempts. A late submission will receive a grade of 0.

Class participation: Everyone will get 10% participation, unless you engage in unprofessional behavior (i.e., missing class without notice, showing up late/leaving early without notice, using social media during class etc.). I will expect active participation by students. “Active participation” does not mean that you need to try to answer every single question posed in class. Thoughtful questions, answers, and remarks greatly contribute to the learning process. “Thoughtful” does not have to coincide with “correct”. The goal of participation is to arrive together at the right answer. **It is expected that the required readings pertinent to each class will be completed before the lecture.**

CLASS SCHEDULE

Class Meets: Usually on Wednesdays 06:30PM – 09.15 PM in HAR 404

Session	DATES	TOPIC	ASSIGNMENT
1	Jan 24 (Wed)	Course Introduction and Overview Financial Decision Making and the Law of One Price	Read Ch. 3 (omit Ch. 3 Appendix “Arbitrage with Transactions Costs”) Chapter 3 HW due on 02/04 at 23.59pm
2	Jan 31 (Wed)	Time Value of Money	Read Ch. 4. Chapter 4 HW due on 02/11 at 23.59pm
3	Feb 7 (Wed)	Interest Rates	Read Ch. 5. (Omit Ch. 5 Appendix). Chapter 5 HW due on 02/18 at 23.59pm
4	Feb 14 (Wed)	Valuing Bonds	Read Ch. 6. (Omit Ch. 6 Appendix). Chapter 6 HW due on 02/25 at 23.59pm
5	Feb 21 (Wed)	Investment Decision Rules	Read Ch. 7 Chapter 7 HW due on 03/04 at 23.59pm

6	Feb 28 (Wed)	Fundamentals of Capital Budgeting	Read Ch. 8 Chapter 8 HW due on 03/14 at 23.59pm
8	Mar 14 (Wed) 6.30pm-9.30pm	Midterm Exam (Chapters 3, 4, 5, 6, 7, and 8)	Bring your calculator
9	Mar 21 (Wed)	Valuing Stocks	Read Ch. 9 Chapter 9 HW due on 04/01 at 23.59pm
10	Mar 28 (Wed)	Capital Markets and the Pricing of Risk	Read Ch. 10 Chapter 10 HW due on 04/08 at 23.59pm
11	Apr 4 (Wed)	Optimal Portfolio Choice & The Capital Asset Pricing Model	Read Ch. 11. (Omit Section 11.3) Chapter 11 HW due on 04/15 at 23.59pm
12	Apr 11 (Wed)	Estimating the Cost of Capital	Read Ch. 12 Chapter 12 HW due on 04/22 at 23.59pm
13	Apr 25 (Wed)	Investor Behavior and Capital Market Efficiency/ Review Session	Read Ch. 13 Chapter 13 HW due on 05/06 at 23.59pm
	May 02 (Wed)	Review Session	
15	May 9 (Wed) 6pm-9pm	Final Exam (Chapters 9, 10, 11, 12, and 13)	Bring your calculator