

HOFSTRA UNIVERSITY
FRANK G. ZARB SCHOOL OF BUSINESS

*“to provide students with a perspective on the integration of the functional areas of business,
while maximizing the use of analytical skills and knowledge for decision making in a contemporary
global business environment”*

DEPARTMENT OF FINANCE
FINANCE 110 - FUNDAMENTALS OF CORPORATE FINANCE
(undergraduate course)

Spring 2003 Semester, Section A, Tu-Th 6:20 - 07:45 pm, 210 CV Starr, Code: 20883

INSTRUCTOR'S NAME	Dr. Ahmet K. Karagozogu
OFFICE HOUR	Mon, Tu & Th 5:00-6:00pm
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GENERAL INFORMATION

Location of Department Office	221 Weller Hall
Telephone number of Department	463-5698
Department Chairperson	Dr. Nancy Huckins

DESCRIPTION OF COURSE

A study of the theoretical principles and analytical techniques used for the financial evaluation of capital budgeting, capital structure and dividend policy decisions under conditions of uncertainty. Evaluation of corporate acquisitions; financial statement analysis and overview of working capital management; and study of the international dimensions of corporate finance. Overview of the influence of the globalization process, legal and regulatory, political and social, and environmental forces on corporate finance decisions and practices. Discussion of the ethical perspectives of corporate financial decisions.

PREREQUISITES OF COURSE

PREREQUISITES: Junior Standing or above; FIN 101, ECO 2, ACCT 102.

COREQUISITES: QM 122.

REQUIRED TEXT

Besley, Scott and Eugene Brigham, **Essentials of Managerial Finance, 12th Edition**, Dryden Press, 2000

Students are expected to be familiar with current events by reading finance publications, such as *The Wall Street Journal*, *Financial Times*, and *Business Week*.

FINANCIAL CALCULATOR

Students may use any financial calculator that has the financial functions (PV, FV, NPV, IRR, etc.) but Texas Instruments, Business Analysts (TI-BAII Plus) calculator will be used in class discussions.

OUTCOME OBJECTIVES AND METHODS OF ACHIEVING THE OBJECTIVES

The objective of the course is to teach students the theoretical principles and analytical techniques that apply in the financial management of firms that operate in the domestic as well as international markets. Students are also expected to increase their awareness of how global, political and social, legal and regulatory, and environmental forces impact and interact with corporate financial decisions and practices. Finally, course assignments aim at expanding the students' problem solving abilities by integrating computer applications.

NOTE ON PERSPECTIVES

The new AACSB guidelines require that all business majors be exposed to several perspectives that influence the management of business organizations. Coverage of perspectives will utilize various classroom techniques like case discussion, role playing, group projects and others as found appropriate. Students should expect to be graded on the perspectives portion of the course.

SCHOOL OF BUSINESS POLICY ON MAKEUP EXAMINATIONS

To be eligible for a makeup examination, a student must submit to the instructor written documentation of the reason for missing a scheduled examination due to medical problems or death of an immediate family member. The instructor (*not the student*) determines whether and when a makeup is to be given. If a makeup examination is to be given, the instructor will determine the type of makeup examination. If the student misses (for any reason) the scheduled makeup examination, additional makeups are *not* permissible.

UNIVERSITY POLICY ON INCOMPLETE GRADES

A student unable to complete a course may, with the permission of the instructor, receive a grade of incomplete (INC). The instructor will permit the student to complete and submit the missing work *no later than the third week* of the following semester. All undergraduate students may accumulate up to nine credits of INC grades without penalty. Past this nine-credit limit, all subsequent INC grades not made up convert to F=s at the end of the semester following the one in which they were assigned.

DEPARTMENT STATEMENT ON ACADEMIC HONESTY

The Department of Finance is dedicated to maintaining the highest level of academic honesty in all of its classes. The University Policy on Academic Honesty states that expulsion from the University is a possible punishment for academic dishonesty. The University Policy also states that students “must avoid not only cheating, but the very appearance of cheating.” Activities such as looking at the examination of another student, talking, or passing notes during examinations give the appearance of cheating, and therefore will be regarded as cheating. Submission of assigned work that is identical in any abnormal way to the work of another student is subject to reasonable interpretation as cheating. Students knowingly providing work to

others are as guilty of cheating as those who accept their work. (For further information on academic honesty, please refer to the ‘*Policy on Academic Honesty*’ in the Hofstra University General Bulletin.)

ATTENDANCE POLICY

Attending classes on a regular basis is required. Class preparation and participation are an integral part of this course. Students are strongly encouraged to participate in class discussions and ask questions. Each student is expected to follow current events relating to this course in newspapers such as The Wall Street Journal as well as in the financial magazines such as Business Week and Fortune. Students are encouraged to discuss current events relevant to the class or their own work experiences as they relate to the class.

Homework problems are regularly assigned, some from the text and others are handouts. Students are expected to try to solve the problems. Solutions to some of the problems will be discussed in class.

METHODS OF EVALUATING STUDENTS

Grading Policy

Mid-Term Exam	35%	(March 13, tentative)
Cumulative Final Exam	35%	(May 15, 6:15-8:15pm)
Term Project	20%	(due on May 6, last day of classes)
Homeworks and Class participation	10%	
Total	100%	

Term Project

Term project to be submitted on **May 6, 2002**. This term project is an integral part of the course. It is the application to a real company of the theories and concepts you will be learning in class. Students will randomly be assigned one of the following four companies: Pfizer Inc. (PFE), Motorola Inc. (MOT), Biogen Inc. (BGEN), Applied Materials Inc. (AMAT). Assignments will be available on Blackboard-Course site on the third meeting of class (Feb 6, 2003).

You will be required to do a report on the following:

- Do a financial analysis using the textbook ratios and supplemented by the comparative financial ratios and the annual cash flow statements available at www.marketguide.com (Click on Comparison for the ratios, and on A: Cash Flows for the statement), or Research Insight Database available at the McGraw-Hill Lab in our library. Other company information is available in this site as well as other financial websites. Specifically, you will analyze and evaluate the **cash flow statement** and the **liquidity, asset management, debt management, profitability and market value ratios** of the firm (See Table 3-6, p. 108 for the relevant ratios, and Table 3-5, p. 94 for an example of the statement of cash flows). Your analysis should be based on **two years of financial statement data**. Your analysis should be related to past and current articles in periodicals and other qualitative information regarding your company. **Do not rely solely on the company’s homepage.**
- You are expected to relate the relevant chapters to the project.
- Follow the format on the next page.

COMPANY ANALYSIS

Please use the format below for your project. The paper should not be longer than 15 pages, typed, double spaced, and **complete with citations** in the body of the paper and the **bibliography**. Remember, even if you paraphrase, if it is not your own idea, you have to cite. Also, the correct writing style and organization of the paper are very important components in determining your project grade.

Be sure that you save your file in a diskette. You may be asked to submit the paper in a diskette if there is any suspicion of plagiarism. The file will be checked using internet plagiarism software.

I. INTRODUCTION

- Short history of the company, brief description of the business model and business operations, major competitors and competitive strategy

II. FINANCIAL ANALYSIS (use subsections at your discretion)

- Using Marketguide as your source, analyze the Statement of Cash flows of the firm (see pp. 91-94, textbook). Please attach the statement to your paper as an exhibit.
- Using Marketguide as your source, calculate three years' worth of financial ratios, compare the ratios to the most recent ratios of the industry, sector, and S&P 500, and evaluate the **financial strength, liquidity, profitability, efficiency, and market valuation** of the company (Use Table 3-6, textbook, as your guide).
 - Include an analysis of the Du Pont formula to analyze the company's overall profitability (p. 109, textbook).
 - Include also the measure of **Beta** (from Marketguide) and calculate the company's expected rate of return based on CAPM. Explain what you are using as your measure of the risk-free rate and the market return. (Review of Chapter 5)
- Include important recent developments related to the company which may explain some of the trends in the ratios calculated above (for example, expected revenue shortfall, announcement of a merger/acquisition).
- Other sources: Value Line (available online via www.Hofstra.edu), Almanac of Business and Industrial Financial Ratios, RMA Industry Ratios, www.wsj.com, www.bondsonline.com, and www.icbinc.com.

III. CONCLUSION

- Comment on the company's performance and its prospects for the future in light of your financial analysis.

COURSE OUTLINE

1. **INTRODUCTION**

Overview of business finance and the role of the financial manager. Description of the main financial decisions of capital budgeting, capital structure and dividend policy under the objective of firm market value maximization. Review of present and future value concepts and formulas.

TEXT: Chapter 1 and Review of Chapters 6 and 7

SUGGESTED READING:

Cornell, B. and A. Shapiro, "Corporate Stakeholders and Corporate Finance," Financial Management 16:1 (1987), 15-21

2. **OVERVIEW OF THE GLOBALIZATION PROCESS IN CORPORATE FINANCE**

An overview of the impact of global developments in the organization and structure of corporations, capital costs, and relationships of industrial and banking firms on the financial performance of the American firm. Brief discussion of trends and consequences in cross-border corporate acquisitions and investments.

SUGGESTED READINGS:

Jennings, Marianne. "Twenty Years of FCPA: Bribery, Facilitation, and International Business," Corporate Finance Review, August 1997, pg. 39-43.

Choi, F., and R. Levich, "International Accounting Diversity: Does It Affect Market Participants?," Financial Analysts Journal, 47:4, (1991), 73-82.

Ang, James, and T. Y. Lai, "The Cost of Capital for a Multinational Corporation," International Review of Economics and Finance 1:4 (1992), 305-314.

3. **FINANCIAL STATEMENTS AND CASH FLOW ANALYSIS**

Basic analysis of financial statements and ratios to evaluate the liquidity, financial leverage, efficiency, and profitability of firms. Simple forecasting concepts and the preparation of cash budgets and pro-forma statements.

TEXT: Chapter 3 and 4

SUGGESTED READINGS:

Jennings, Marianne. "The Codification of Ethics in Financial Reporting," Corporate Finance Review, May/June 1997, pp. 31-33.

Barnes, P. "The Analysis and Use of Financial Ratios: A Review Article," Journal of Business Finance and Accounting 14:4 (1987), 449-462

4. **OVERVIEW OF WORKING CAPITAL MANAGEMENT**

The structure of assets and liabilities; choices concerning current and fixed assets, and short- and long-term liabilities; implications for firm risk and profitability.

TEXT: Chapter 13

SUGGESTED READING:

Gentry, J., "State of the Art of Short-run Financial Management," Financial Management 17 (Summer 1988), 41-57

5. **A SURVEY OF CAPITAL BUDGETING TECHNIQUES**

Examination of the criteria for investment decisions: The Net Present Value, the Internal Rate of Return, and the Payback Period; advantages and disadvantages. The relationship between NPV and IRR and conflicts in the ranking of projects. Definition and measurement of relevant cash flows for capital budgeting decisions. Ethical issues in corporate investment decisions.

TEXT: Chapters 8 and 9

SUGGESTED READINGS:

Statman, M. and D. Caldwell, "Applying Behavioral Finance to Capital Budgeting: Project Terminations," Financial Management 16:4, (1987), 7-15.

Ross, M. "Capital Budgeting Practices of Twelve Large Manufacturers," Financial Management 15:4, (1986), 15-22.

6. **OVERVIEW OF ENVIRONMENTAL ISSUES IN FINANCE**

An overview of major environmental concerns when investors and corporations make investment decisions. Incorporating externalities and subsidies in investment evaluation.

SUGGESTED READINGS:

Black, B., "Institutional Investors and Corporate Governance: The Case for Institutional Voice," Journal of Applied Corporate Finance 48:3, (1992/1993), 19-32.

Muoghalu, M., "Valuation of Toxic Waste Mismanagement Lawsuits: A Capital Market Approach," International Journal of Finance 3:1 (1990/1991), 65-85.

7. **THE COST OF CAPITAL**

Consideration of risk in the capital budgeting process. The justification for a weighted average cost of capital. Estimating the component costs of capital by means of various approaches. Calculating the weighted average cost of capital.

TEXT: Chapters 10 and 5 (pgs. 198-211)

SUGGESTED READINGS:

Amihud, Y. and H. Mendelson, "Liquidity and Cost of Capital Implications for Corporate Management," Journal of Applied Corporate Finance 2:3, (Fall 1989), 65-73.

Durand, D., "Afterthoughts on a Controversy with MM, Plus Thoughts on Growth and the Cost of Capital," Financial Management 18:2, (1989), 12-18.

8. **CAPITAL STRUCTURE DECISIONS**

The concepts and measurement of operating the financial leverage. Defining business and financial risk. The relationship between firm value and capital structure. The Modigliani and Miller propositions. The definitions of levered and unlevered cost of equity and average cost of capital, equity and firm market value. The impact of bankruptcy and agency costs in determining the capital structure of the firm. Methods used to set the capital structure and various factors influencing the capital structure decisions of corporations.

TEXT: Chapter 11

SUGGESTED READINGS:

Miller, M., "The Modigliani-Miller Propositions After Thirty Years," Journal of Applied Corporate Finance 2:1, (1989/1990), 6-18.

Pinegar, J. and L. Wilbricht, "What Managers Think of Capital Structure Theory: A Survey," Financial Management 18:4, (1989), 82-91.

9. **THE DIVIDEND POLICY DECISIONS**

Dividend policy and payment mechanics. The Miller and Modigliani irrelevance proposition. Other theories: the clientele effect theory, and the informational content theory. Factors for and against the distribution of dividends. Stock repurchases, stock splits, and stock dividends.

TEXT: Chapter 12

SUGGESTED READINGS:

Rozeff, Michael S. "How Corporations Set Their Dividend Payout Ratios." Issues in Corporate Finance, New York: Stern, Stewart, Putnam and Macklis Ltd.

Asquith, Paul, and D. W. Mullines, "Signaling with Dividends, Stock Repurchases, and Equity Issues," Financial Management 15:3 (Autumn 1986), 27-44.

10. **CORPORATE ACQUISITION AND CONTROL ACTIVITIES**

An overview of corporate acquisition and control activities like mergers, tender offers, leveraged and management buyouts, sell offs and divestitures. Financial evaluation of corporate acquisitions. Impact of mergers on stakeholders.

TEXT: Chapter 18 (pgs. 712-719)

SUGGESTED READINGS:

Mitchell, M., "The Value of Corporate Takeovers," Financial Analysts Journal 74:1, (1991), 21-31.

Pound, J., "Raiders, Targets, and Politics: The History and Future of American Corporate

Control,” Journal of Applied Corporate Finance 5:3, (1991/1993), 6-18.

Jensen, M. “Corporate Control and the Politics of Finance,” Journal of Applied Corporate Finance 4:2, (1991/1992), 13-33.

11. **INTERNATIONAL FINANCIAL DECISIONS**

Introduction to foreign exchange rates and currency risk, and the investment and financing decisions of multinational corporations.

Class Lecture and Handout

SUGGESTED READINGS:

Hodder, J., “Evaluation of Manufacturing Investments: A Comparison of U.S. and Japanese Practices,” Financial Management 15:1, (1986), 17-24.

Pringle, J., “Managing Foreign Exchange Exposure,” Journal of Applied Corporate Finance 3:4 (1990/1991), 73-82.

12. **BANKRUPTCY, REORGANIZATION, AND LIQUIDATION**

Brief discussion of the financial consequences of business failures leading to bankruptcy, and reorganization or liquidation. Consequences for managers, stockholders, debtholders and other firm stakeholders.

TEXT: Chapter 17 (pgs. 681-683)

SUGGESTED READING:

Gilson, S., “Managing Default: Some Evidence on How Firms Choose Between Workouts and Bankruptcy,” Journal of Applied Corporate Finance 4:2, (1991/1992), 62-70.

13. **OVERVIEW OF LEGAL AND REGULATORY AND SOCIAL AND POLITICAL ISSUES IN CORPORATE FINANCE**

An overview of the legal and regulatory provisions that apply to business combinations, tender offers, proxy fights and other control activities, and bankruptcy. Impact of institutional investors and the role of managers, stockholders, and other stakeholders in the financial decisions of modern corporations.

SUGGESTED READINGS:

O’Barr, W. and J. Conley, “Managing Relationships: The Culture of Institutional Investing,” Financial Analysts Journal, 48:5, (1992), 21-27.

Haugen, R. and Lemma Senbet, “Corporate Finance and Taxes: A Review,” Financial Management 15:3, 5-21.

Briffett, R., “Avoiding New Evils by Applying New Remedies: Taxes and the Cross-Border Transaction,” Journal of Applied Corporate Finance 4:4, (1991/1992), 109-116.