

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 201 - FINANCIAL ANALYSIS AND MARKETS
(Graduate course)

Spring 2003 Semester, Sec. A, Mon 6:20-8:40PM, 106 Breslin Hall, Code: 20581

INSTRUCTOR 'S NAME	Dr. Ahmet K. Karagozogu
OFFICE HOUR	Mon, Tu & Th 5:00-6:00pm
LOCATION OF OFFICE	25 Weller Hall
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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

Introduction to financial analysis, financial markets and institutions. Topics include time value of money, security valuation, risk and return, and financial statement analysis. The functions, organization, structure and regulation of financial institutions and markets are described. Overview of the globalization process, ethical, political and social, and demographic issues that apply to financial markets and institutions. (Formerly *Survey of Finance*)

PREREQUISITES OF COURSE

PREREQUISITE: ACCT 201 or approved equivalent. **COREQUISITE:** QM 201.

REQUIRED TEXT

Ross, Westerfield, and Jordan, Fundamentals of Corporate Finance, Sixth Ed., McGraw Hill, 2003.

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

This course represents a survey of financial principles and is designed to provide students with a sound background in the field of finance. The material covered in this course should prepare students for Finance 202 which is a course required in the M.B.A. program. Upon completion of this course, students will understand the mathematics of time value of money, the principles of risk and return, and stock and bond valuation. The course will familiarize students to the institutional environment of finance, which includes financial markets and instruments and financial institutions. In addition, the course exposes the student to a variety of perspectives in finance including ethics, and the influence of global, regulatory, political and social, and demographic forces.

Students are expected to read the financial pages of a major newspaper and relate this material to the course work. Students in this course are required complete a term project.

Significant written and oral communication skills (for example, class participation, presentations, team projects, etc.) will be emphasized.

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

Incomplete work must be completed and submitted to the instructor for a passing or failing grade before the end of the next regular semester.

UNIVERSITY POLICY ON ACADEMIC HONESTY

A University is a community of faculty and students dedicated to the acquisition and transmission of knowledge. Every individual in this community has an obligation to uphold its intellectual standards, which alone make learning and education worthwhile. It is the responsibility of the faculty to try to communicate both knowledge and respect for knowledge. It is equally the responsibility of the student to respect knowledge for its own sake. Only thus does the student prove himself/herself deserving of a university education. A student is not an empty receptacle into which the faculty pours knowledge: the student's role in education is an active one, and the student bears the responsibility for his/her work. Whoever refuses this responsibility is unworthy of a university education. A student who steals work or cheats in any way is refusing the responsibility that is his/hers and so forfeits the right to remain a member of the academic community unless he/she is willing and able to recognize the seriousness of

his/her offense and demonstrates such recognition by no further violation of academic propriety. Hofstra would rather educate than cut off the offender. It recognizes that one instance of cheating may not be a sign of an incorrigibly corrupt person; but it will not tolerate dishonesty, and it will not offer the privileges of the community to the chronic cheater.

The student must avoid not only cheating, but the very appearance of cheating. He/she must be responsibly aware that certain actions in an examination leave him/her open to the accusation of cheating. The instructor is authorized to question the student on the basis of suspicious appearance. Anyone who helps another person to cheat on an examination is considered guilty of cheating.

Plagiarism in any form, either from published works or unpublished papers of other students, is cheating. Using a ghost-writer is cheating. The student is responsible for acknowledging explicitly in his/her papers all sources consulted and used. The proper procedure for such acknowledgement is outlined in the College Style Sheet available in the Bookstore, or in style manuals approved by specific departments. Ignorance of the rules is no excuse. If a student is in doubt about the propriety of a particular academic procedure, he /she should consult one of his/her instructors or the Dean of Students for appropriate guidance. Organizations or individuals who make a practice of collecting papers for resubmission will be considered guilty of fostering plagiarism and subject to the penalties imposed on the plagiarist.

ATTENDANCE POLICY

Attending classes on a regular basis is required. Class preparation and participation are an integral part of this course. 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

Mid-term Exam (in-class)	40%	(March 17, tentative)
Final Exam (in-class and take-home)	40%	(May 12, 6:20-8:10pm)
Attendance, class participation, and assignments	<u>20%</u>	
	100%	

COURSE OUTLINE

1. AN OVERVIEW OF FINANCE

An introduction to the three major areas of finance and their interrelationships. Overview of the role of securities and securities markets in shifting capital from investors to corporations. Current issues in finance.

Text: Chapter 1

Required Reading: Mishkin, Chapters 1 and 2: Why Study Financial Markets and Institutions and Overview of the Financial System

2. AN OVERVIEW OF THE PROCESS OF GLOBALIZATION IN FINANCIAL MARKETS AND INSTITUTIONS

Discussion of trends in the globalization process characterizing financial markets. Introduction to the globalization process for financial services and institutions, and consequences for the competition among markets and institutions. Role of technological innovations in the globalization process.

Reading: Regina Fazio Maruca, "The Right Way to go Global," Harvard Business Review (March/April 1994), 135-145.
Pavel, C. and J. McElravey, "Globalization in the Financial Services Industry," Kolb, editor, The Corporate Finance Reader, pages 14-29.

3. FINANCIAL ANALYSIS

Analysis of financial statements; use of financial ratios in measuring liquidity, activity, debt and profitability; trend analysis; limitations of ratio analysis.

Text: Chapters 2 and 3

Reading: Keith M. Howe and Stephen Vogt, "On 'q'," The Financial Review, May 1996, 265-286.

4. TIME VALUE OF MONEY

Basic concepts of compounded interest; present and future values of lump-sums and annuities; use of tables; loan amortization and other applications of time value.

Text: Chapters 5 and 6

5. VALUATION OF BONDS AND STOCKS

Description and valuation of bonds and stocks

Text: Chapters 7 and 8

Readings: Anderson, J. and D. Keenan. "Share Valuation: Difficulties and Disputes." Accountancy (July 1988), pages 123-24.

Hickman, K. and G. H. Petry. "A Comparison of Stock Price Predictions Using Court Accepted Formulas, Dividend Discount, and P/E Models." Financial Management (Summer, 1990), pages 76-87.

6. **RISK AND RETURN**

Measurement of risk and return of individual securities and portfolios; capital asset pricing model; systematic and unsystematic risk components; efficient markets

Text: Chapter 13

Readings: Graver, Robert R. "Investment Policy Implications of the Capital Asset Pricing Model." Journal of Finance 36 (March 1981), pp. 127-141.
Dybvig, Philip H., and Jonathan E. Ingersoll, Jr. "Mean Variance Theory in Complete Markets." Journal of Business 55 (April 1982), pp. 233-251.

7. **MARKET EFFICIENCY**

The incorporation of new information into market prices of securities and its impact on investment returns. Discussion of stock market anomalies.

Text: Chapter 12

Readings: Robert A. Haugen, "Finance from a New Perspective," Financial Management, Spring 1996, 86-97

8. **FINANCIAL MARKETS**

The organization and structure of financial markets. Description of various instruments traded in the financial markets. Discussion of the regulatory environment of financial markets. The role of technology in the development and growth of financial markets. Information disclosure, regulatory and ethical issues.

Required Reading: Handout for financial markets and institutions
Mishkin and Eakins, Chapter 2 "Overview of the Financial System"

9. **FINANCIAL INTERMEDIATION**

The description of the role of financial intermediaries in the savings-investment process. The characteristics and structure of different financial institutions are described. The role of investment bankers in the market for capital acquisition. The regulatory environment is also discussed.

Required Reading: Handout for financial markets and institutions

10. **AN OVERVIEW OF ETHICAL AND DEMOGRAPHICAL ISSUES IN FINANCE**

Discussions focus on various finance-related issues in ethics; demographical issues and policies of financial institutions.

Readings: Smith, C. "Economics and Ethics," Journal of Applied Corporate Finance, Summer 1992, pages 23-28.
John Dobson, "The Role of Ethics in Finance," Financial Analysts Journal, (November/December 1993), 57-61.

11. **OPTIONS AND FUTURES**

Description of options and futures; pricing principles; market quotations; overview of speculating and hedging strategies; warrants and convertibles

Text: Chapter 14 (14. & 14.2 only) and handout on Futures Markets

Reading: John S. Howe, "In-the-Money Warrant Extensions," The Financial Review, May 1996, 407-429.

12. **AN OVERVIEW OF POLITICAL AND SOCIAL ISSUES IN FINANCE**

A discussion of political and social issues as they apply to financial markets and institutions, such as the growing institutionalization of securities ownership, social welfare, redlining, environmental impact and political consequences from the control of pension funds, social and political pressures on the investment practices and choices of institutional investors.

Readings: Roe, M., "Mutual Funds in the Boardroom," Journal of Applied Corporate Finance, Winter 1993, pages 56-61.

Black, B., "Institutional Investors and Corporate Governance: The Case for Institutional Voice," Journal of Applied Corporate Finance, Fall 1992, pages 19-32.

Assigned Readings:

- Firer, Colin, "Driving Financial Performance through the DuPont Identity: A Strategic use of financial Analysis and Planning," *Financial Practice and Education*, vol. 9, Spring/Summer 1999, pp. 34-35.
- Booth, L., "Estimating the Equity Risk Premium and Equity Costs: New Ways of Looking at Old Data," *Journal of Applied Corporate Finance*, vo. 12, Spring 1999, pp. 100-111.
- Ball, Ray, "The Theory of Stock Market Efficiency: Accomplishments and Limitations," in *The Revolution in Corporate Finance*, ed. J. Stern and D. Chew, Jr., Blackwell, 1998, pp. 2-15.
- Black, Bernard, "Institutional Investors and the Case for Institutional Voice," in *The Revolution in Corporate Finance*, ed. J. Stern and D. Chew, Jr., Blackwell, 1998, pp. 45-58.
- Mishkin, F. and S. Eakins, "Financial Markets and Institutions," 2nd Edition, Addison Wesley. Chapters 1 and 2.