BA 2802 – Principles of Finance

Z. Nuray Güner
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Spring 2013
Office: H 113
Class hours: MW 8:45-10:00 in Classroom G 118
Office Hours: MW 10:15-11:30 or by appointment

Yahoo groups for this course: http://groups.yahoo.com/group/ba2802s13

This course addresses the theory and practice of financial management – the generation and allocation of financial resources. It has three major objectives and these are:

- To provide you with a grounding in the basic concepts of finance, including the time value of money, the role of financial markets, asset valuation, portfolio theory, asset pricing, and the risk-return tradeoff;
- To develop your skills in financial analysis, planning, and decision-making;
- To expand your awareness of institutions and practices in business and finance.

Students interested concentrating in the field of finance should view this course as a critical foundation for future studies and work in corporate finance, financial markets, international financial markets or other financial institutions. Students who do not pursue a career in a finance-related area will gain an understanding of responsibilities, concerns and methods of analysis used by corporate financial managers. This coursework will examine not only the principles and theories of finance but specifically how these techniques are applied in practice.

Learning Outcomes

Students who complete this course should be able to:

- analyze financial statements of companies, evaluate their performance
- calculate present and future values of different kinds of cash flows
- find the intrinsic value of bonds and stocks
- discuss advantages and disadvantages of alternative investment criteria
- explain the main relationships between risk and return
- identify and describe different types of risks inherent in each investment
- understand the importance of diversification in portfolio management and its impact on portfolio risk
- calculate the cost of capital for a firm and a project
- discuss different views on capital structure
- explain different dividend policy theories

Assessment

To achieve these goals and learning outcomes, I will be evaluating your performance in class on a continuous basis and giving you timely feedback on your performance. This assessment will be done via the interim exams and optional final exam, homework assignments, a case report, unannounced quizzes and attendance.
Text and Readings

Highly Recommended: Read Financial Magazines and financial pages of daily newspapers on a regular basis. Topics and articles found in current periodicals, as well as articles found on the internet, will be integrated into classroom discussion.

Prerequisites
Understanding of accounting, economics, college algebra and statistics is a must. Knowing how to use a spreadsheet program like EXCEL would be quite helpful. Students who feel weak in any of these areas may require additional preparation time for class and to complete assignments.

Course Requirements
Specific topics and class by class text assignments appear on the last page of this course outline. While we may deviate slightly from this schedule, it provides the structure for the course. Some of the assignments may require use of the spreadsheet program.

Yahoo Groups
Students are required to become a member of the yahoo groups that I created for this course. All the course material including power point slides and solutions to end of chapter problems, your grades, assignments and announcements will be posted there. So, if you are not a member then you will not have access to this material. To become a member of this group, please go to the following web site: http://groups.yahoo.com/group/ba2802s13 and select “Join this Group”. Then it will ask for your yahoo ID and password. After you enter the required information, it opens up a page for you. In the “Comment to Owner” section on that page, enter your full name. If your full name is not shown in that box, your membership request to this yahoo groups will be denied. I check the names in this Comment to Owner box against the student list for the course and give approval to those who are on my list of students for this course. Please do this as soon as possible.

Student Background Form
Students are expected to fill out a student background form. Due date for these forms is March 4, 2013. Students should submit their forms in class on that day. At the beginning of the class on March 4, 2013, I will take digital photos of the students in class. Five points will be deducted from the overall grade of students for late submission of these forms regardless of how late the submission is. These forms will help me learn the names of students and associate names with faces.

Quizzes
Unannounced quizzes will be administered throughout the semester. These quizzes will be given at the end of the class. You will have at most 10 minutes to complete the quiz. These quizzes will form the basis for your attendance grade. Since attendance is important, if you have a valid excuse for not attending the class, please let the instructor know of your absence in advance. More than a couple of unexcused absences will generate sanctions. No make-up quizzes will be given.
Graded Homework Assignments
There will be three graded homework assignments, one before each interim exam, during the semester. These homework assignments will be due two days before the interim exams. They are designed to give you an idea about the type of questions you might see on the interim exams and give you a chance to work on some additional problems. Students are allowed to work in groups on these homework assignments however each student should turn in his or her own work. If you work in groups on these assignments, you need to list the names of people that you worked together on the upper right hand corner of the first page of your assignment. These homework assignments are due by 17:00 on following days: March 20, April 24 and May 22, 2013. Solutions to these homework assignments will be posted on yahoo groups after they are discussed in the recitation hour that will be held at 17:45 on the due dates. Late submission of solutions to homework assignments will not be accepted regardless of how late they are.

Recitation Hours
There will be several recitation hours throughout the semester. Date and time of these recitation hours will be determined in discussion with the students. Either a teaching assistant from the Department or a student assistant will conduct these recitation hours. Problems that are going to be worked on during the recitation hour will be posted in yahoo groups in advance to give you a chance to take a look at those problems and even try to solve some of them. Solutions to these problems will be available in yahoo groups after the recitation hour. There will also be a recitation hour on graded homework assignments after you turn in your own solutions. Attendance to these recitation hours is not required but it is highly recommended. Even though the solutions to the problems discussed in these recitation hours will be made available to you, you will gain a lot more from attending these recitation hours.

Case Report
During the term you will prepare a case report. You will be assigned to groups by the instructor. Each group will prepare a written (word processed) analysis of the case no longer than 5 pages excluding exhibits and tables. At the end of the term each of you will be required to provide an evaluation of the contribution of each of the group members to the group's output. The case report will be due on May 20, 2013. Since the case will be discussed in class on that day, late case reports, regardless of how late they are, will not be accepted.

Since this is a group project, each of you will be required to evaluate the contribution of your groupmates to the success of your group. This evaluation will be done during the third interim exam and will have a weight of 50% in your grade on Case Report. Details on both the form of the case report and the peer evaluation will be provided later in the term.

Interim Exams
Three interim exams will be given in the evenings. These exams are scheduled for March 22, April 26 and May 24, 2013 at 18:00.

Optional Final Examination
A comprehensive optional final exam will be given at the end of the term. Final exam for this class is scheduled for May 29, 2013 (Wednesday) from 9:30 to 12:00. This optional final exam will replace one of your lowest grades on interim exams provided that you have a higher grade on the final exam. So, the final exam can only help you and it can’t hurt you.
Students will know their grades on all the exams and homeworks by noon on **Monday, May 27, 2013**. Those who are interested in taking this optional final exam should let the instructor know their intentions via email by **no later than midnight on Monday, May 27, 2013**.

Re-Sit Examination
If you have taken all three interim examinations administered throughout the semester and you also have taken the optional final examination, then you are eligible to take the re-sit examination too. However, if you have to take the optional final exam because you missed one of the interim exams administered during the semester, you are not eligible to take the re-sit examination because the optional final examination is a make-up exam for you, not really a final exam.

No exam make-ups will be given. If you miss an exam then you are required to take the optional final exam.

Please take careful note of the above examination and other due dates. These dates are fixed and non-negotiable.

Grade Determination
Grades are based on judgmental evaluation of student performance as in any course. The following approximate weights will be employed in grade determination:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midterm Exams</td>
<td>23% each</td>
</tr>
<tr>
<td>Case</td>
<td>10%</td>
</tr>
<tr>
<td>Graded Homeworks</td>
<td>15%</td>
</tr>
<tr>
<td>Quizzes and Attendance</td>
<td>6%</td>
</tr>
</tbody>
</table>

Student Disabilities
Any student, who, because of a disabling condition, may require special arrangements in order to meet course requirements, should contact me as soon as possible. Students should present the appropriate documentation from the university’s Disability Support Office (Engelsiz ODTÜ Birimi, ODTÜ Kütüphanesi, Solmaz İzdemir Salonu, Telephone: 210-7196, Email: engelsiz@metu.edu.tr) verifying their disability, and outlining the special arrangements required. Please note that no accommodations will be provided to the disabled students prior to the completion of this approved University process.

Rules of Academic Honesty
Spring 2013

Cheating: All university, faculty, and department principles on academic honesty will be strictly enforced. The usual consequence for academic dishonesty is failure in the course and additional disciplinary action. Examinations are individual and are to be completed without unauthorized outside assistance. Persons observed cheating during examinations will automatically receive a failing grade in the course. Homework assignments are individual, unless otherwise specified by the instructor, and are to be completed without unauthorized outside assistance as well. Persons observed cheating in their homework assignments will
receive a score of zero for the portion of the semester grade that is allocated to such assignments. In addition to the consequences above, the instructor will initiate disciplinary action against the student(s) involved in academic dishonesty.

**Plagiarism:** The instructor assumes that students will do their own work. By placing their names (individual or team) on assignments, students are affirming that the contents are their original work. Ideas should be stated in the student’s own wording. Violation of this provision will be considered as unethical behavior, subject to disciplinary action. If you have any doubt about the use of a specific material, see the instructor ahead of time.

**Civility in the Classroom:** Students are expected to assist in maintaining a classroom environment which is conducive to learning. In order to assure that all students have an opportunity to gain from time spent in class, students are prohibited from using cellular phones or beepers, eating or drinking in class, arriving late or leaving early without prior permission, or engaging in any other form of distraction. Inappropriate behavior in classroom shall result in, minimally, a request to leave class.

**Examination Rules:** Students must present a valid METU Student ID before they can be allowed into the examination rooms. Those students who cannot present this ID will not be allowed into the examination room under any circumstances. Cellular phones must be turned off and stowed away during the examinations. Students whose phones are observed to be turned on and/or not stowed away will receive a score of zero for the examination.

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**Don’t be Trashy. Recycle.**

Do not throw items away in the trash that should go into the recycling bin. Show a little class.

**RECYCLING WORKS**

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**Tentative Class Schedule (subject to change)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 18</td>
<td>Introduction to Financial Management</td>
<td>Chap. 1</td>
</tr>
<tr>
<td>Feb. 20-27</td>
<td>Working with Financial Statements</td>
<td>Chap. 3</td>
</tr>
<tr>
<td>Mar. 4</td>
<td>Student Background Forms are due in class.</td>
<td></td>
</tr>
<tr>
<td>Mar. 4-6</td>
<td>Introduction to Valuation: The Time Value of Money</td>
<td>Chap. 4</td>
</tr>
<tr>
<td></td>
<td>Recitation #1 during the week of March 4-8</td>
<td></td>
</tr>
<tr>
<td>Mar. 11-18</td>
<td>Discounted Cash Flow Valuation</td>
<td>Chap. 5</td>
</tr>
<tr>
<td>Mar. 20-25</td>
<td>Interest Rates and Bond Valuation</td>
<td>Chap. 6</td>
</tr>
</tbody>
</table>
Recitation #2 during the week of March 18-22

Mar. 20  First Graded Homework is due by 17:00
Mar. 20  Recitation #3

Mar. 22  First Interim Exam at 18:00 (Chapters 1, 3, 4 and 5)

Mar. 27-Apr. 1  Equity Markets and Stock Valuation  Chap. 7
Apr. 3-8  Net Present Value and Other Investment Criteria  Chap. 8
Recitation #4 during the week of April 1-5
Apr. 10-15  Making Capital Investment Decisions  Chap. 9
Apr. 17  Some Lessons from Capital Market History  Chap. 10
Recitation #5 during the week of Apr. 15-19

Apr. 24  Second Graded Homework is due by 17:00
Apr. 24  Recitation #6

Apr. 22-24  Risk and Return  Chap. 11

Apr. 26  Second Interim Exam at 18:00 (Chapters 6, 7, 8 and 9)

Apr. 29-May 6  Cost of Capital  Chap. 12
Recitation #7 during the week of April 29-May 3
May 8-13  Leverage and Capital Structure  Chap. 13
May 13-15  Dividends and Dividend Policy  Chap. 14
Recitation #8 during the week of May 13-17

May 20  Case Discussion (Report is due in class)

May 22  Question and Answer session

May 22  Third Graded Homework is due by 17:00
May 22  Recitation # 9

May 24  Exam Review

May 24  Third Interim Exam at 18:00 (Chapters 10, 11, 12, 13 and 14)

May 29  Comprehensive Optional Final Exam (9:30-12:00)