

**FINANCE (29:390:329:Q2)**

**Spring 2005**

Professor Robert H. Patrick

Meets Tuesdays, 6-9PM, [BOYDEN HALL](#)-100

Office and hours: Ackerson Hall 312, Tuesdays 4-6PM and by appointment.

Phone: (973) 353-5247, you will be able to leave messages at this number, however, *communication by e-mail is preferred.*

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web: <http://www.rci.rutgers.edu/~rpatrick/hp.html>

Text: *Fundamentals of Financial Management*, 12th Edition, by James C. Van Horne and John M. Wachowicz Jr., Financial Times Prentice Hall, 2005, and other readings to be assigned.

The purpose of this course is to introduce you to finance, particularly application of the concepts of time value of money, risk, rates of return, and valuation in business decisions. Finance affects all parts of any business. Anyone involved in some management of a business needs some knowledge of business finance. The concepts can be applied to personal financial and investment decisions as well. This course will provide a systematic introduction and development of economics and finance methods to deal with answering the following questions:

- (1) What assets should the firm (or individual) invest in and how much should be invested?
- (2) How should investment funds be raised?

Question (1) is the firm's investment or capital budgeting decision, and question (2) is the firm's financing decision. Financial decisions affect both the size of the earnings stream (profitability) and the risks the firm faces in producing this income stream. The focus of this course will be on these real world questions and how economics and finance can be used to address these questions.

Prerequisites: principles of microeconomics, principles of macroeconomics, and introductory statistics.

Following is our anticipated schedule for the semester.

<i>January</i> 18	Introduction
25	Concepts in valuation: time value of money
<i>February</i> 1	Concepts in valuation: long-term securities
8	Market Risks and Returns
15	Test 1
22	CAPM, Multivariable and Factor Valuation
<i>March</i> 1	Option Valuation, Principles of Capital Investment
8	Risk and Real Options in Capital Budgeting, Creating Value Through Required Returns
22	Theory of Capital Structure, Capital Budgeting
29	Test 2
<i>April</i> 5	Capital Budgeting, Making Capital Structure Decisions
12	Dividend Policy: Theory and Practice, Liquid Assets and Liability Restructuring
19	Managing Financial Risk,
26	Mergers and the Market for Corporate Control
<i>May</i> 3	Course Review
Final Exam	Date to be announced.

A thorough understanding of the above topics should allow the student to successfully proceed to Corporate Finance and through the remainder of the text on their own. Other topics may be added depending upon available time and class interests.

**Grades:** There will be three exams, including a final. All exams are cumulative. In general, the questions on the exam will reflect the amount of class time spent on the different chapters and topics, as well as material assigned for students to cover outside of class. Tests will make up 90% of your grade (25% for each of your midterms and 40% for the final). Periodic quizzes, worksheets, short analysis and writing problems, class attendance, and participation will make up the remaining 10%.

Since the exams are comprised primarily of multiple choice questions you will get no partial credit. This considerably lowers test scores from what they would be if partial credit were given. Thus, if you get 70% correct, this does not mean that you know only 70% of the material, you probably know a lot more. Therefore we curve the grades, ranking you relative to everyone else in the class. Only your curved grade is relevant in evaluating your grade for

the course.

There can be NO makeup exams since your grades are based on a curve. If you have a valid written excuse for missing a midterm your grade for the missed test will be considered the same as you obtain(ed) on your other midterm. If you have a valid excuse to miss the final exam you must make it up the following semester. In all cases, if you do not have a valid and independently written excuse you will receive a score of zero on the missed exam(s).

**Some Potentially Interesting Web Pages** (there are many given in your text, here are two additional examples):

<http://www.economist.com>

<http://www.FT.com>