Finance 463
Forecasting and Capital Budgeting
Spring Semester 2015
MW 7:00-8:15 in Rehn 326

Instructor: Wanli Zhao
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Office Hours: Monday 5:00-7:00 or by appointment

Course Catalog: Long-term forecasting techniques used in business; alternative approaches to capital structure decisions, cost of capital measurement; and performance measurement for investment decisions including mergers and leasing; explicit consideration of certainty, risk, and uncertainty in investment analysis; theory and applications in private and public sectors. This course is designed to provide students with an in-depth background in financial planning and corporate capital budgeting decisions.

Prerequisites: Finance 463 is an advanced finance class. Although the catalog states that you may take it concurrently with Finance 361, I strongly recommend that you take this class only after having 361. See me if you have concerns on this issue.

Textbook: There is no required textbook. However, I highly recommend that you find a copy of Corporate Finance (Ross, Westerfield, Jaffe). Any edition will be sufficient. Other similar textbooks include Fundamentals of Corporate Finance (Ross, Westerfield, and Jordan), and Essentials of Corporate Finance (Ross, Westerfield, and Jordan).

Case Package: You will need to purchase a HBS case packet online, which includes cases, spreadsheets, and a simulation. To purchase the package, go to: https://cb.hbsp.harvard.edu/cbmp/access/32885729

MS Excel: We are going to use Excel significantly in this course, on- and off-class. I expect you to obtain the basic knowledge of Excel before class. We are going to learn and apply some Excel functions together in class.

Academic Dishonesty: Students found guilty of committing acts of academic dishonesty will receive at least an “F” in the course and possible suspension from SIUC. Examples of academic dishonesty include, but are not limited to: obtaining exams illegally, working with another student on out-of-class projects, (when it is not allowed), possession of exams from previous semesters that have not been released by the department, plagiarism, using an unauthorized cheat-sheet for a quiz or exam, talking to others during an exam, and looking at others’ exam papers.

Class Rules: I do not want to see or hear cell phones during class; turn your phone to “off” and do not check your text messages. If your cell phone rings, you may be asked to leave the class for the remainder of the class period. If I see cell phones during an exam or quiz, I will assume you are cheating. Since we are going to use the classroom computers, if you use the computer for any other unrelated purpose (browsing, games, email, Skype, etc.), I will ask you to leave. Do not study for other classes, read other books or read...
newspapers/periodicals. Or I will ask you to leave. If you come in late, do not walk across the front of the room.

Office Visits: Any subject of discussion is permissible during office visits with two exceptions: (1) If you miss a class, I will not answer questions about material covered that day – you are on your own; (2) I will not discuss forthcoming exams in the office or outside of class. All students will have the same information concerning exams. You may discuss the material in the assigned chapters or from lectures during office visits.

Final Exam: There is a take-home final exam which is due the last week of the semester. The exam will be distributed to you at least 3 weeks before the submission deadline. The exam may consist of multiple choice questions, problems, and short essay questions. There is no make-up exam/case given under any circumstances. You are required to submit your answer to me in a Word file via email as an attachment by the DEADLINE. If you miss the deadline by one minute, your exam score will be zero.

Quizzes: There will be announced and unannounced quizzes. Unannounced ones will be in-class quizzes, which are normally held at either the beginning or the end of class. At the end of the semester, I will drop each student’s lowest quiz score, and then I will average the remaining scores to determine your overall quiz average, which will be standardized to be 100 points. There are no make-up quizzes for any reason (excused or unexcused)!

HBS cases: This is a case class. There are five HBS cases that are required for a write-up to be submitted by each group. I will drop one case of the lowest grade. We will discuss required and unrequired cases in class and the case discussions will be used for your participation assessment on an individual basis. For every case, the case questions will be distributed in a timely manner.

Capital Budgeting Simulation: The capital budgeting simulation from HBS is a comprehensive hands-on experience for real-world capital budgeting. It is an interactive “game” that offers real-world scenarios and complexity of capital budgeting problem. We will debrief the simulation in the last class. The assessment will be based on the teams and each team member will get the same score.

Grades: Assessment Instrument Points
Exam 100
Quiz Average 100
HBS cases (required) 400
Simulation 150
Class Participation 150
Total Points 900

Bloomberg Extra: See the last page.

To earn a particular grade you need to obtain the following number of points:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Points</th>
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<tbody>
<tr>
<td>A</td>
<td>810-900</td>
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</table>
Peer evaluation: At the end of the semester, each of you is required to evaluate your team members. I have the discretion to upgrade or downgrade your letter grade by my assessment of your performance in your team based on your peer evaluations.

Miscellaneous: Refer to the following document for some other useful information such as incomplete policy and library hours http://pvcaa.siu.edu/_common/documents/Syllabus%20Attachment_Spring_2015.pdf

Class Description:

This class is an advanced one with a heavy focus on application and problem solving. As I assume that you have satisfied the prerequisite requirement (i.e., FIN361), we will only go over the basic knowledge and calculations in order to refresh your memory and prepare for the case studies, mainly through quizzes. That means that you need to take the efforts to prepare yourself by digging into what you have learned in previous classes. Classes are clustered into sessions and each session will be focused on a topic or related set of topics. I will be introducing various concepts and theories in each session and require you to apply these to analyze and solve various problems. I may assign readings from other sources (such as videos or current newspaper/journal articles). Learning will be accomplished through (your own) readings, class lectures, and much more importantly, case discussions. Because it is my experience that the topics in this course are best understood through problem solving and application, I cannot overemphasize the importance of your participation in classroom discussions and critiques. Always know what you do not know before class.

On the top of learning through the real-world problems via the cases, you are required to work in groups and teamwork is the critical factor in your performance. Teamwork is what you are expected to be involved in and apply in the real-world too. As such, there are two layers of practicality in this course, dealing with real problems in the cases and with your teammates. Teamwork benefits you in several ways. First, when students work together instead of on their own, the learning efficacy and effectiveness are improved through discussions and mutual learning. Secondly, team-based project also requires the “soft” skills such as interpersonal skills, communication skills, and problem solving skills to achieve a good outcome. Thirdly, team-based learning calls for active involvement and participation of every member and it fosters mutual monitoring and competition and incentives to perform, and hopefully leadership. Remember, a critical piece of the peer evaluation comes from your team members. Therefore, it is strongly recommended that you plan your daily schedule together as early as possible so that you can build up chemistry and sound group dynamics. I will designate group members. If you have issues with your team, make sure that you let me know.

Last but not least, be prepared for the case discussions. In case discussions, I am only a facilitator for the sake of direction of the discussions. I am not going to give you right answers and often there is no “right” answer! Case study is about the thinking process, the logic, the evidence and analysis, and presentation. I will grade individual participation/discussion performance for every case discussion. You must be prepared for case discussion before class. Otherwise, your learning experience will be dramatically compromised and your participation grade will undoubtedly suffer.

Essential Requirements:
(a) Be prepared for every class before class. For instance, your preparation may include but not limited to going over the materials on D2L and discussing with your team on the cases.

(b) Attend class and actively participate. I believe that your learning experience is positively related to your attendance and participation. Since this is a twice-a-week class, missing even one class could be very serious to your progress. **Every student registered for the class is responsible for arranging his/her academic, work, social, and travel schedules to accommodate the classes.** Thus, if you anticipate job, family or health problems resulting in a high likelihood of your absence for more than one week during the semester, you should discuss this matter with me as soon as possible.

(c) For this course, your constant access to a computer with Microsoft Excel installed is REQUIRED. I expect you to have basic experience with Excel, especially with the math functions and finance functions.

(d) If you miss a class, it is your responsibility to determine what was covered including any administrative announcements. Some of the material covered in exams may not be in the text. Hence, you are urged to attend class regularly.

(e) Take exam and quizzes **as scheduled** and submit them **by the deadline.**

(f) More importantly, plan your schedule with your group members so that you can communicate with each other on a daily basis. As we have quite some case discussions and required case reports, team-working effectively in this class is essential to your (and your group’s) success.
Following is a tentative schedule of topics to be covered in the course. This list may change at the discretion of the instructor. I will notify you of changes in a timely manner. I am using the chapters in Corporate Finance 9th edition as an example.
No class days: Monday, 3/9; Wednesday, 3/11.

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic Description</th>
<th>Reading, HBS case, Quiz</th>
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<tbody>
<tr>
<td>Week 1</td>
<td>Introduction/Syllabus;</td>
<td>Chapter 1</td>
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<tr>
<td>Week 2 &amp; 3</td>
<td>Ratio Analysis</td>
<td>Chapter 3;</td>
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<td>case: Identify Industries; Ratios Tell A Story; Sears vs. Wal-Mart Stores;</td>
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<td>Week 4 &amp; 5</td>
<td>DCF</td>
<td>Chapter 4</td>
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<td>Week 5, 6, &amp; 7</td>
<td>Capital Structure</td>
<td>Chapter 16 &amp; 17;</td>
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<td>case: American Home Product; Blaine Kitchenware;</td>
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<td>Week 8</td>
<td>Cost of Capital</td>
<td>Chapter 7;</td>
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<td>case: Marriott;</td>
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<td>Week 9 &amp; 10</td>
<td>NPV and other criteria</td>
<td>Chapter 5;</td>
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<td>case: Valuing Wal-Mart</td>
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<td>Week 10, 11, &amp; 12</td>
<td>Cashflow Projection</td>
<td>Chapter 6;</td>
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<td>case: Mercury Athletic; Stryker: In-sourcing PCBs; Stryker: Capital Budgeting; Flash Memory;</td>
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<td>Week 13, 14, &amp; 15</td>
<td>Options</td>
<td>Chapter 22 &amp; 23</td>
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<td>Real Options: Valuing Managerial Flexibility; case: Merck</td>
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<td>Week 16</td>
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<td>Capital Budgeting Simulation</td>
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<td>Week 17</td>
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<td>Final Exam</td>
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Bloomberg:

You will encounter homework assignments in later classes such as FIN 432 that will involve the use of the Bloomberg Professional Service. Therefore, you will need to be somewhat familiar with the Bloomberg system. One way to do this is to participate in the Bloomberg training. *Bloomberg Essentials* is Bloomberg’s certification program. In total, there are eight subjects taught through videos on the system. The benefits of being Bloomberg certified are at least two folds: (1) it will significantly improve your performance in those classes as a significant part of your homework score will come from the use of Bloomberg; and (2) it will enhance your employability because recruiters seek candidates with competitive technical and financial technology skills, and employers place great emphasis on having well-trained employees.

Obtaining Bloomberg certification is not all that difficult, but will require significant effort. As an additional incentive, you will have 10 points added to your course grade if you pass the core exam covering the four general subjects. You will also have 2 points added to your course grade for each specific subject exam that you pass. Additionally, when you pass an exam you will earn an *Acknowledgement of Completion*.

The four general subjects are: 1) Getting Started, Bloomberg News, 2) Market Monitors and 3) Launch Pad, and 4) API (Bloomberg Data in Excel). The four specific subjects are: 1) Equity Essentials, 2) Fixed Income Essentials, 3) FX Essentials, and 4) Commodity Essentials.

To earn your acknowledgement in all four market sectors, it will take approximately 6-10 hours. It takes an estimated 1.5 hours to watch all four core videos. The core exam is 35 questions and will take an estimated hour to complete. You are permitted to take the market sector courses after you pass the core exam. Each market sector course takes about an hour to complete.

There are strict passing requirements for the exams. A grade of 75% or greater must be achieved on each exam in order to pass. If your score is lower than 75%, you may not be able to retake an exam. You are strongly encouraged to take the time you need to explore the system and practice before taking the exams. The exams are not very difficult. However, you really need to pay attention during the videos because the exams will include questions on very detailed information. There is no time limit for watching the videos or taking the test.

Bloomberg terminals are located in Rehn 326. These terminals can be identified by their special keyboards. Please use personal earbuds or headphones to listen to the audio and mute the keyboard speakers so you do not disturb others in the room. See me if you do not have earbuds or headphones.

The schedule of Rehn 326 availability is as follows: Monday 9:30-11:00 am and 12:30-5:00 pm; Tuesday 8:00–11:00 am and 3:30–5:00 pm; Wednesday 9:30–11:00 am and 12:30–5:00 pm; Thursday 8:00–11:00 am and 3:30–4:30 pm; Friday 10:00–11:30 am and 1:00–5:00 pm; **NOTE:** There is an Open House in Rehn 326 on Monday, February 16 from 12:20–2:00 pm and on Friday, April 3 from 1:00–2:00 pm. Usage is on a first come basis. Sessions are limited to one hour per student, and one session per day, unless there are no other students waiting for the terminal. A graduate student in Finance may be scheduled to provide assistance for about 10 hours per week. This student will not be available to offer extensive hands-on assistance to each Bloomberg user, but will attempt to give limited assistance when possible.

Note that your Bloomberg account becomes invalid after 30 days of inactivity.