York University
School of Administrative Studies, LA&PS

AP/ADMS 4540
Financial Management

Summer 2014 Section D

Course director:
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Office Hours:
Wednesday 6:00 - 7:00 PM in Atk 242

Course Description:

The objective of the course is to undertake a rigorous study of the theory and empirical evidence relevant to financial management. Building upon your introductory knowledge from ADMS 3530, you will learn elements of corporate finance not covered in ADMS 3530 such as determinants of interest rates, bond duration and refunding, risk and return, cost of capital, capital budgeting, capital structure, dividend policy and options and futures for hedging risk. Be forewarned that most students find this course both quantitative and demanding.

Prerequisites:

Credit in ADMS 3530 and ADMS 3330 and their prerequisites. Given that financial management requires one to understand and deal effectively with risk and uncertainty, a good grounding in statistics is essential, and familiarity with statistics should extend through regression, covariance and correlation. In addition, you should have a good working knowledge of common software (e.g., MS Excel, Minitab) useful for statistics.

Required Work and Grading:

Course requirements include class attendance (including active participation), individual assignments, exams, with the weights given as follows:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Attendance and Participation</td>
<td>10 %</td>
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<tr>
<td>Assignments (2 individual)</td>
<td>10 %</td>
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<tr>
<td>Mid-Term Exam (2 hours; Sun, June 15, 10:30am -12:30pm)</td>
<td>35 %</td>
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<tr>
<td>Final Exam (2.5 hours)</td>
<td>45 %</td>
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Attendance (including active participation) is important for learning. You are expected to come to each lecture and encouraged to participate actively in class. One mark will be given for your index card, and the other nine marks will be based on attendance and more importantly on my subjective assessment of your class participation. Please do not make any assumptions here. One could receive a low mark even if one has attended every class because of failure to participate actively. One could also receive a low mark because one does not attend class regularly.
There are 2 assignments. Assignments will be published on the course website or handed out at least one week in advance of the due date. These assignments involve problem-solving and must be submitted individually, and must be handwritten and not photocopied nor electronically transmitted. Assignments are due as noted in the Tentative Course Calendar. Late assignments will not be accepted. If your assignment is late, you would receive a mark of zero (0). If you are unable to meet the assignment’s deadline, you must contact the course director as soon as possible. Late assignments may be accepted if you have legitimate reasons, such as a completed attending physician’s statement. No assignments will be accepted after the solution has been made available.

The mid-term exam is of 2 hour duration on Sunday, June 15, 10:30am-12:30pm location TBD. The final exam of 2 ½ hour duration will be written as scheduled by the Registrar. Both the mid-term and final exams are closed book and together have the same duration as the fall term’s three exam parts. Only normal writing instruments (such as pencils, pens, rulers and erasers), a calculator that includes logarithm and exponential functions and can raise a number to a power, and one 8.5”x11” or letter-size page list of handwritten formulas may be used to write the mid-term and final exams. You are advised to write on one side of your formula sheet for the mid-term exam, and complete the other side for the final exam. This page must not be printed nor photocopied, and must be submitted together with each exam.

If you have a religious conflict, please inform the course director as soon as possible and not later than FOUR (4) WEEKS before each exam so that alternate arrangements can be made. In fairness to all students, no makeup exam will be given for the mid-term. If you have a valid excuse, your final exam performance relative to other students will be used to estimate your mid-term exam mark. If you do not have a valid excuse, you will receive a mark of zero (0). The final exam is comprehensive (or cumulative) and covers the entire course. However, more weight will be given to the material covered after the mid-term. If you miss the final exam, you should submit a Deferred Standing Agreement (as described in the next section) to write the final exam in the following term. It is the policy of the Admin Studies Finance Area that instructors will NOT sign a DSA form if you miss both the midterm and final exams. Students in this situation will need to petition for a remedy appropriate to their circumstances.

If you think an error has been made in the marking and you like the course director to look at it again, then please submit a written request on a separate sheet of paper for a review with valid reasons for the review.

Letter grades are given as per School of Administrative Studies guidelines: 
*The mean OR median final grade in the course will be B.*
Your final letter grade will be determined relative to the grades of all other students.

**Policy for Exam Deferrals:**

The School of Administrative Studies has begun implementing the new Deferred Standing Agreement (DSA) process. According to School Guidelines, Deferred Standing may be granted
to students who are unable to write their examinations at the scheduled time, or to submit their assignment/s by the last day of classes.

**NOTE:** There is no provision for rewriting an examination to improve a final grade. In fact, students who defer an examination experience a high failure rate because they start to forget what they learned during the course.

In order to apply for deferred standing, students must complete a Deferred Standing Agreement (DSA) form online and submit their request no later than five (5) business days from the date of the exam. The request must be properly submitted with supporting documentation directly to the main office of the School of Administrative Studies (282 Atkinson) with the online form. These requests will be considered on their merit and decisions will be communicated to the students online. Students with approved DSA will be able to write their deferred examination during the School’s deferred examination period, which for Summer 2014 courses will be administered during the period Friday, September 26, 2014 through Sunday, September 28, 2014. The deferred exam may be different from that of the originally scheduled exam. The deferred exam may be closed book, cumulative and comprehensive and may include all subjects/topics of the textbook whether they have been covered in class or not. Any request for deferred standing on medical grounds must include an Attending Physician's Statement form; a “Doctor’s Note” will not be accepted.

**On Learning:**

Except during assignments and examinations, you are encouraged to discuss class material with other students as an active form of learning. But please be aware of the regulations governing academic offences found in the Undergraduate Calendar. For the assignments, it is especially important that you reference your sources of data and information thoroughly and accurately. Otherwise you would be subject to the penalties for deliberate plagiarism.

**York University takes academic honesty very seriously. Second and subsequent breaches of academic honesty as a York student (e.g., cheating on exams, plagiarism, buying/copying another’s assignment solution, perhaps from the internet) will result in a permanent record of academic dishonesty that will follow the student throughout his or her career and possible expulsion from the university. The first breach of academic honesty will result in a mark of zero (0) and possible failure in the course.**

**Readings:**

Cultivation of individual interests and pursuits is encouraged, but please study the material given within [ ] in the Tentative Course Calendar. You are also responsible to learn the lecture material. Remember, the course material is cumulative and requires a steady "digestion of the installment plan." Few people can master the material just before the exam. Solid foundations are necessary and much depends on you. If you proceed "step-by-step", then you will find the
subject much easier. The key to the bold-faced abbreviations in the Tentative Course Calendar is given below:


**Ross:** Ross, Westerfield, Jaffe, Roberts. *Corporate Finance*, Fourth Canadian Edition, McGraw-Hill Ryerson, 2005 (Chapters 10, 11 & 12 can be found on course website.)

**RWJR** is the required textbook for this course and is available at the York Bookstore.

**More Things to Do:**

1. Check the Course Website and read your e-mail regularly.

2. Submit an index card (or quarter of a letter-size page) in the third week of classes with the following handwritten information about yourself:
   a. Your full name.
   b. York student number.
   c. E-mail address and local phone number.
   d. Hometown.
   e. Intended major/concentration and career plans.
   f. List of Finance courses taken at York and other colleges/universities (which received transfer credit from York).
   g. Photocopy of your York Card or other form of acceptable photo ID.

**Acknowledgements:**

I benefited from input from C. Carmichael, D. Mitra, M. Rashid and G. Srinivasan when I first started teaching Financial Management/Corporate Finance. For ADMS 4540, I benefited from the course outlines of S. Lazrak, E. Maynes, N. Tahani (returning his compliment) and related discussion. Their generosity helped to make this course's standards competitive with the marketplace.

**IMPORTANT NOTE REGARDING TENTATIVE COURSE CALENDAR:** There will be a midterm review, a final exam review, and two tutorials on financial ratios (RWJR Chapter 3) during the semester. Classrooms, dates, and times for the tutorials and the review sessions will be announced later.
TENTATIVE COURSE CALENDAR

| Lecture 1   | May 7   | **Deterministic Valuation I:** Review of TVOM, DCF Valuation, and Long-Term Financial Planning  
[RWJR Chapters 4, 5, 6, Appendix 6A; Chapters 1 & 2 (self-study)] |
|------------|---------|-------------------------------------------------------------------------------------------------------------------------------------|
| Lecture 2  | May 14  | **Deterministic Valuation II:** Determinants of Interest Rates, Bond Duration & Refunding, and Subsidized Interest Rates (ODA)  
[RWJR Chapter 7, Appendices 7A, 7B (from course website)] |
| Lecture 3  | May 21  | **Risk and Return I:** Capital Market Stylized Facts, and Mehra-Prescott Equity Premium Puzzle  
[RWJR Chapters 8, 12; Appendix 8A (self-study), Ross Chapters 10 & 11]  
{Index Card Due In Class}  
{Assignment 1} |
| Lecture 4  | May 28  | **Risk and Return II:** Markowitz Portfolio Theory & Separation Theorem, CAPM, and APT & CT  
[RWJR Chapter 13 and Appendix 13A; Ross Chapters 11 & 12] |
| Lecture 5  | Jun 4   | **Deterministic Capital Budgeting:** Finding IRR with Infinite CCATS, EAC, and Project Evaluation & PV CCATS in Alt. Tax Regimes  
[RWJR Chapters 9, 10, Appendices 9A, 10A, 10B] |
| Lecture 6  | Jun 11  | **Capital Budgeting with Uncertainty:** Scenario, Sensitivity & Break-Even Analysis, Operating Leverage, Managerial Options, and Capital Rationing  
{Assignment 1 Due In Class}  
[RWJR Chapter 11] |
| Sun, June 15, 10:30am-12:30pm | Midterm: Sunday, June 15, 10:30am -12:30pm |
| Lecture 7  | Jun 18  | **Applications of Capital Budgeting Techniques:** Leasing, and Mergers & Acquisitions  
[RWJR Chapters 22 and 23] |
| Lecture 8  | Jun 25  | **Cost of Capital:** WACC, Flotation (Underwriting) Costs, APV, EVA & Free Cash Flow, and MVA  
[RWJR Chapter 14, Appendices 14A, 14B] |
| Lecture 9  | Jul 2   | **Capital Structure:** M&Ms, Impact of Corporate Taxes, Financial Distress & Bankruptcy, Trade-Off & Pecking Order Theories, Windows of Opportunity, LBOs, IPOs, and Effects of Personal Taxes  
[RWJR Chapters 15 and 16 and Appendices 16A, 16B] |
| Lecture 10 | Jul 9   | **Dividends:** Dividend Dates, and Tax Policy Effects on Payout Policy  
[RWJR Chapter 17] |
| Lecture 11 | Jul 16  | **Derivatives:** Options, Forwards & Futures, Hedging, and Risk Management  
[RWJR Chapters 24 and 25] |
| Lecture 12 | Jul 23  | **Review of Regression Analysis** and **Review for Final Exam**  
{Assignment 2 Due In Class} |

[ ] denotes material covered in class on the date indicated. You are responsible for the (self-study) material even though these are not covered in class.

{} denotes submission due in class on the date indicated