

**MGMT 61000**  
**Financial Management**  
**Fall 2018**  
**Module 2**  
**Professor John J. McConnell**

This course is an introduction to Financial Management approached from the perspective of a general manager of an operating business. The objective of the course is to provide you with the conceptual and practical framework necessary to evaluate the financial impact of operating decisions. Readings, case analysis, and problem sets focus on the basic tools used by financial analysts and financial decision makers within a financial markets framework.

We will consider such topics as financial statement analysis, financial planning, stock and bond valuation, project analysis, portfolio selection, estimating and using the cost of capital in practice, understanding the differences among financing alternatives, understanding the implications of financing decisions of an operating business, and estimating the value of an acquisition target.

The recommended textbook for the courses is *Corporate Finance* by Stephen Ross, Randolph Westerfield, Jeffrey Jaffe, and Bradford Jordan, 11th edition, published by McGraw-Hill Irwin Publishing. In the course outline readings from the textbook are designated (RWJ&J). New or used copies of the textbook are available at the nearby campus bookstores or can be ordered online.

An alternative that you might wish to consider is to use the 10<sup>th</sup> edition of the book as there are many similarities between the 11<sup>th</sup> and 10<sup>th</sup> editions. The course outline lists reading assignments in both the 10<sup>th</sup> and 11<sup>th</sup> editions of the book.

The course outline along with a packet of cases, problem sets, and readings for the course can be accessed through Blackboard under Course Content, see folder named Course Packet.

Course grades will be based on class participation, two quizzes, and a final exam. The weights for each of these are:

Class participation:	25%
Quiz 1:	15%
Quiz 2:	15%
Final exam:	45%

In the event of a major campus emergency, course requirements, deadlines and grading percentages are subject to changes that may be necessitated by a revised semester calendar or other circumstances. Here are three ways to obtain further information about this course. (1) Blackboard, (2) email: [mconnj@purdue.edu](mailto:mconnj@purdue.edu), and (3) Professor McConnell's office phone number: 765-494-5910.

The quizzes will be "open-book." You may use any notes or books for the quizzes. The final exam is not "open-book," but you will be allowed one "crib sheet" for the exam. This may be no

larger than a normal 8.5" x 11" size paper; you may write or type on both sides of the paper; no post-it notes; no multiple layers.

You will be allowed to use a financial calculator during the final exam and quizzes. The use of laptop computers and similar devices will not be allowed during the final exam and quizzes. You are asked not to bring your mobile telephones to the exams or quizzes.

You are encouraged to work in teams to complete daily assignments, but you should come to class prepared to discuss your solution to the cases and problem sets independently.

Your class participation grades will be posted weekly on Blackboard. Please check your participation grades periodically. Should you have a question concerning your grades, please contact Professor McConnell. The suggested target grade point average in the Krannert Graduate School for core MBA program courses is 3.35. The final grade distribution for this course will be very close to that targeted suggestion.

You are expected to adhere to the Purdue/Krannert code of honor.

Office number and telephone number are:

Professor John J. McConnell  
Office: KRAN 475  
Telephone: 765-494-5910  
email: mcconnj@purdue.edu

Office hours are:

Monday 4:30pm-5:30pm  
Wednesday 4:30pm-5:30pm  
Thursday 4:30pm-5:30pm  
or by appointment

You may also submit questions to Professor McConnell via e-mail.

Professor McConnell's secretary is:

Ms. Janet Yoakum  
KRAN 471  
765-494-8503  
yoakumj@purdue.edu

The following course outline gives the topics to be covered, reading assignments, problem sets, and case assignments for each day.

The notation (CP) stands for course packet and (RWJ&J) stands for the textbook by Ross, Westerfield, Jaffe, and Jordan.

## **Class Participation**

The approach to attaching a grade to class participation for MGMT 61000 is as follows:

At the end of each class period, each student is assigned a score of 1, 2, 3, 4 or 5. The scores are assessed after each class with the intent of taking into account both the quality and quantity of each student's participation for the day. The scores recognize that not every student will be able to participate every day, so we expect to have some 1's.

If a student is absent from class with an excused absence, the class participation score for the day will be "a". At the end of the term, for that day, the student will be assigned the average of his or her scores for all other days minus 0.5. Prior to the end of the module, no score will be assessed for days with excused absences.

If a student is absent from class without an excused absence, the class participation score for that day will be zero.

Class participation scores will be posted weekly on Blackboard (<https://mycourses.purdue.edu/>). At the end of the module, a total numerical score will be calculated by summing the daily scores.

## **Hints on Class Participation**

What factors contribute to the overall quality of class participation?

1. Being present (unless excused for a reason).
2. Getting to class on time (ready to go when the class begins).
3. Being prepared to respond to questions asked by the instructor or your colleagues.
4. Being able to support responses to the questions you give (i.e., if you prepared the solution to a problem in a group, you personally should be able to explain how the group arrived at the solution).
5. Being willing and able to constructively and critically evaluate and respond to your classmates' contributions.

The list is not prioritized, i.e., simply showing up for class will not be sufficient to merit high marks for class participation. In the parlance of economics, it is a necessary, but not sufficient, condition to doing well in class participation.

## **Excused Absence**

If you expect to be absent from class for any day, please send an e-mail message in advance to Professor McConnell and Ms. Yoakum prior to class if possible. If you expect to be late for any class any day, please send a note in advance to Professor McConnell and Ms. Yoakum.

# EMERGENCY PREPAREDNESS

**EMERGENCY NOTIFICATION PROCEDURES** are based on a simple concept – if you hear a fire alarm inside, proceed outside. If you hear a siren outside, proceed inside.

- **Indoor Fire Alarms** mean to stop class or research and immediately **evacuate** the building.
  - Proceed to your Emergency Assembly Area away from building doors. **Remain outside** until police, fire, or other emergency response personnel provide additional guidance or tell you it is safe to leave.
- **All Hazards Outdoor Emergency Warning Sirens** mean to immediately seek shelter (**Shelter in Place**) in a safe location within the closest building.
  - “Shelter in place” means seeking immediate shelter inside a building or University residence. This course of action may need to be taken during a tornado, a civil disturbance including a shooting or release of hazardous materials in the outside air. Once safely inside, find out more details about the emergency\*. **Remain in place** until police, fire, or other emergency response personnel provide additional guidance or tell you it is safe to leave.

*\*In both cases, you should seek additional clarifying information by all means possible...Purdue Home page, email alert, TV, radio, etc...review the Purdue Emergency Warning Notification System multi-communication layers at [http://www.purdue.edu/ehps/emergency\\_preparedness/warning-system.html](http://www.purdue.edu/ehps/emergency_preparedness/warning-system.html)*

## EMERGENCY RESPONSE PROCEDURES:

- Review the **Emergency Procedures Guidelines**  
[https://www.purdue.edu/emergency\\_preparedness/flipchart/index.html](https://www.purdue.edu/emergency_preparedness/flipchart/index.html)
- Review the **Building Emergency Plan** (available from the building deputy) for:
  - evacuation routes, exit points, and emergency assembly area
  - when and how to evacuate the building.
  - shelter in place procedures and locations
  - additional building specific procedures and requirements.

## EMERGENCY PREPAREDNESS AWARENESS VIDEOS

- “Shots Fired on Campus: When Lightning Strikes,” is a 20-minute active shooter awareness video that illustrates what to look for and how to prepare and react to this type of incident. See: <http://www.purdue.edu/securePurdue/news/2010/emergency-preparedness-shots-fired-on-campus-video.cfm> (Link is also located on the EP website)

## MORE INFORMATION

Reference the Emergency Preparedness web site for additional information:  
[http://www.purdue.edu/emergency\\_preparedness](http://www.purdue.edu/emergency_preparedness)

## Daily Class Schedule

### Wednesday, October 17, 2018

**Topic:** The Statement of Cash Flows

**Study Hint:** First, read the assigned “Notes” in the course packet (see below). Second, try to work the case. Third, read the assigned material in the textbook. Fourth, complete the case.

**Reading:** In your course packet is a reading titled “Notes on Financial Planning, Financial Ratios, and Pro Forma Financial Statements” (CP). Please read pp. 1-2 and pp. 6-10 plus the Appendix of the “Notes.”

11<sup>th</sup> edition: Pp. 1-12 and pp. 20-34 (RWJ&J)

10<sup>th</sup> edition: Pp. 1-12 and pp. 20-34 (RWJ)

**Case:** West Point Supply, Inc. (CP)

**Assignment:** Please see the case for the assignment.

**Goal:** To understand how the Statement of Cash Flows can be used to diagnose operating performance and to be introduced to the calculation and use of financial ratios.

### Thursday, October 18, 2018

**Topic:** Financial Analysis

**Reading:** Notes on Financial Planning, Financial Ratios, and Pro Forma Financial Statements (CP)

The Implicit Cost of Trade Credit (CP)

Some Suppliers Worry About Tesla (CP)

11<sup>th</sup> edition: Pp. 44-56 and pp. 63-67 (RWJ&J)

10<sup>th</sup> edition: Pp. 44-56 and pp. 63-67 (RWJ)

**Case:** West Point Supply, Inc. (CP) (continued)

**Assignment:** Please see the case for the assignment.

**Goal:** To gain further understanding of financial ratio analysis and how ratios reflect financial performance.

### Monday, October 22, 2018

**Topic:** Financial Planning: Projecting Funds Needs for a Growing Company

**Study Hint:** First, read the “Notes” in the Course Packet. Second, try to work the case. Third, read the textbook assignment. Fourth, finish the case.

**Reading:** Notes on Financial Planning, Financial Ratios and Pro Forma Financial Statements (CP). Please read pp. 1-8 of the “Notes”.

11<sup>th</sup> edition: Pp. 44-56, pp. 63-67, and pp. 67-70 (RWJ&J)

10<sup>th</sup> edition: Pp. 44-56, pp. 63-67, and pp. 67-70 (RWJ)

**Case:** Big Boy Gear, Inc. (CP)

**Assignment:** Please see the case for the assignment. Please answer questions 1-8 in the case.

**Goal:** To understand how a company’s financial plan is shaped by the company’s operating strategy.

### **Wednesday, October 24, 2018**

- Topic:** Financial Planning: Projecting Seasonal Funds Needs
- Reading:** 11<sup>th</sup> edition: Pp. 799-810 and pp. 816-818 (RWJ&J)  
10<sup>th</sup> edition: Pp. 804-815 and pp. 821-822 (RWJ)
- Case:** Holiday Lights, Inc. (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To understand how seasonal patterns of activity affect a company's financial plan.

### **Thursday, October 25, 2018**

- Topic:** Financial Planning: Long-Term Forecasts
- Case:** Complete Big Boy Gear, Inc.
- Assignment:** Please answer questions 9-12 in the case.
- Goal:** To develop an understanding of long-term financial planning.
- Quiz:** *A quiz of about 25 minutes will be given at the end of class. The quiz is open-book and open-notes. This quiz will encompass material covered in MGMT 61000 to date.*

### **Monday, October 29, 2018**

- Topic:** Time Value of Money: Bond Valuation
- Reading:** 11<sup>th</sup> edition: Pp. 87-122 and pp. 238-255 (RWJ&J)  
10<sup>th</sup> edition: Pp. 87-122 and pp. 238-256 (RWJ)
- Case:** Problem Set #1 (CP)  
Future Value and Present Value Tables (CP)  
Hint: In solving the problems, write out the cash flows period-by-period or year-by-year. In solving these problems, please use the present value tables in your case packet (but feel free to check your answers with Excel).
- Goal:** To understand the process of compounding interest rates, discounting cash flows, and bond valuation.

### **Wednesday, October 31, 2018**

- Topic:** Time Value of Money: Common Stock Valuation
- Reading:** 11<sup>th</sup> edition: Pp. 273-288 (RWJ&J)  
10<sup>th</sup> edition: Pp. 273-287 (RWJ)
- Case:** Problem Set #2 (CP)  
Hint: In solving the problems, write out the cash flows period-by-period or year-by-year. In solving these problems, please use the present value tables in your case packet (but feel free to check your answers with Excel).
- Discussion:** Please read "Notes on Capital Investment: A How-To-Do-It Guide for Project Analysis" (CP). Please bring this reading to class. We will discuss this reading in class.
- Goal:** To understand the basics of stock valuation.

### **Thursday, November 1, 2018**

- Topic:** Project Analysis and Capital Budgeting: The Basics Part I
- Reading:** 11<sup>th</sup> edition: Pp. 135-154 (RWJ&J)  
10<sup>th</sup> edition: Pp. 135-154 (RWJ)  
Notes on Capital Investment: A How-To-Do-It Guide for Project Analysis (CP)
- Case:** Begin Problem Set #3 (CP). Please do problems 1-4.  
Hint: In solving these problems, use the “Notes on Capital Investment: A How-To-Do-It Guide for Project Analysis” as a framework.
- Goal:** To gain an understanding of techniques used in project analyses and capital budgeting.

### **Monday, November 5, 2018**

- Topic:** Project Analysis and Capital Budgeting: The Basics Part I - continued
- Reading:** 11<sup>th</sup> edition: Pp. 171-188 and pp. 190-195 (RWJ&J)  
10<sup>th</sup> edition: Pp. 171-189 and 190-195 (RWJ)  
Notes on Capital Investment: A How-To-Do-It Guide for Project Analysis (CP)
- Case:** Problem Set #3 (CP) - continued
- Goal:** To gain a further appreciation of techniques used in project analysis and capital budgeting.
- Quiz:** *A quiz of about 25 minutes will be given at the end of class. The quiz will be open-book and open-notes. This quiz will cover bond and stock valuation and the basics of project analysis.*

### **Wednesday, November 7, 2018**

- Topic:** Project Analysis and Capital Budgeting: The Basics Part II
- Reading:** Notes on Capital Investment: A How-To-Do-It Guide for Project Analysis (CP)
- Case:** Slayter Manufacturing, Inc. (CP)  
Princeton Motors, Inc. (CP)  
MACRS Tax Depreciation Schedules Table (CP)
- Assignment:** Please see the cases for the assignments.
- Goal:** To gain an understanding of incremental cost and revenue in capital project analysis.

### **Thursday, November 8, 2018**

- Topic:** Project Analysis: Make vs. Buy Decisions
- Case:** Drainage Supply, Inc. (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To understand expected cash flows and the importance of incremental cash flows in the setting of a classic “make vs. buy” decision.

### **Monday, November 12, 2018**

- Topic:** Risk and Return in Capital Markets - Part I
- Reading:** 11<sup>th</sup> edition: Pp. 302-323 and pp. 331-352 (RWJ&J)  
10<sup>th</sup> edition: Pp. 306-326 and pp. 335-354 (RWJ)  
Note on Cost of Equity Capital (CP)
- Lecture:** Historical Returns to Stocks and Bonds and Risk Premiums
- Assignment:** Problem Set #4 (CP)
- Goal:** To gain an understanding of the history of stock and bond returns and to be introduced to the fundamentals of portfolio analysis.

### **Wednesday, November 14, 2018**

- Topic:** Risk and Return in Capital Markets - Part II
- Lecture:** The CAPM and the Cost of Equity Capital
- Reading:** 11<sup>th</sup> edition: Pp. 353-363 (RWJ&J)  
10<sup>th</sup> edition: Pp. 354-368 (RWJ)
- Assignment:** Problem Set #5 (CP)
- Goal:** To develop a conceptual framework for measuring the cost of equity capital.

### **Thursday, November 15, 2018**

- Topic:** Estimating the Cost of Equity Capital
- Reading:** 11<sup>th</sup> edition: Pp. 396-411 (RWJ&J)  
10<sup>th</sup> edition: Pp. 400-415 (RWJ)
- Case:** Panhandle Fabricating, Inc. (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To understand the role of diversification and risk in estimating divisional cost of equity capital.

### **Monday, November 19, 2018**

- Topic:** The Weighted Average Cost of Capital
- Reading:** 11<sup>th</sup> edition: Pp. 413-415 (RWJ&J)  
10<sup>th</sup> edition: Pp. 417-419 (RWJ)  
A Note on How to Unlever (and Re-lever) Betas – and Why (CP)
- Case:** Eastern Products Company (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To understand the estimation and use of the weighted average cost of capital and the use of multiple discount rates within the same company.

### **Wednesday & Thursday, November 21&22, 2018**

- Topic:** No Class -- Thanksgiving Break



### **Monday, November 26, 2018**

- Topic:** Financial Market Efficiency and Corporate Financing Decisions
- Reading:** 11<sup>th</sup> edition: Pp. 431-462 (RWJ&J)  
10<sup>th</sup> edition: Pp. 435-466 (RWJ)  
Notes on Capital Structure Policy: The Debt Policy Puzzle (Abridged I) (CP)  
Please bring “Notes on Capital Structure Policy: The Debt Policy Puzzle (Abridged I)” to class.
- Lecture:** The Efficient Market Hypothesis, Financing Patterns, and the M&M Propositions
- Assignment:** Discussion Questions on Market Efficiency (CP)
- Goal:** To understand some fundamental concepts in corporate financing policy.

### **Wednesday, November 28, 2018**

- Topic:** Managing the Corporate Capital Structure: Theory
- Reading:** 11<sup>th</sup> edition: Pp. 471-478, pp. 485-486, pp. 490-515, and pp. 522-534 (RWJ&J)  
10<sup>th</sup> edition: Pp. 474-481, pp. 488-490, pp. 494-519, and pp. 526-538 (RWJ)  
Notes on Capital Structure Policy: The Debt Policy Puzzle (Abridged II) (CP)  
Please bring “Notes on Capital Structure Policy: The Debt Policy Puzzle (Abridged II)” to class.
- Lecture:** Identifying an Optimal Capital Structure
- Assignment:** Please bring “Notes on Capital Structure Policy: The Debt Policy Puzzle (Abridged II)” to class.
- Goal:** To appreciate the valuation consequences of financing decisions.

### **Thursday, November 29, 2018**

- Topic:** Managing the Corporate Capital Structure: Practice
- Reading:** A Note on Share Repurchases (CP)
- Case:** National Electronics Corp. (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To apply capital structure theory in practice.

### **Monday, December 3, 2018**

- Topic:** Managing the Corporate Capital Structure: Practice
- Reading:** A Note on Share Repurchases (CP)
- Case:** National Electronics Corp. (CP)
- Assignment:** Please see the case for the assignment.
- Goal:** To apply capital structure theory in practice.

**Wednesday, December 5, 2018**

**Topic:** Corporate Valuation in an M&A Context: The WACC Approach

**Reading:** A Note on Enterprise Valuation (Abridged) (CP)

11<sup>th</sup> edition: Pp. 415-418 and 880-898 (RWJ&J)

10<sup>th</sup> edition: Pp. 419-424 and 885-902 (RWJ)

**Case:** Stay & Play, Inc. (CP)

**Assignment:** Please see the case for the assignment.

**Goal:** To understand the WACC method for valuing an acquisition target.

**Thursday, December 6, 2018**

**Topic:** Initial Public Offerings

**Reading:** Using Multiples and Comparable Companies in Corporate Valuation (CP)

11<sup>th</sup> edition: Pp. 617-635 and 642-643 (RWJ&J)

10<sup>th</sup> edition: Pp. 621-637 and 645-647 (RWJ)

**Case:** Corbin Corporation (CP)

**Assignment:** Please see the case for the assignment.

**Goal:** To see the connection between valuation ratios and discounted cash flow.

**Monday-Friday, December 10-December 14, 2018**

Final Exam Date and Time To Be Determined