

Credit Hours: 3

Contact Hours: This is a 3-credit course, offered in accelerated format. This means that 16 weeks of material is covered in 8 weeks. The exact number of hours per week that you can expect to spend on each course will vary based upon the weekly coursework, as well as your study style and preferences. You should plan to spend 14-20 hours per week in each course reading material, interacting on the discussion boards, writing papers, completing projects, and doing research.

COURSE DESCRIPTION AND OUTCOMES

Course Description:

This course builds on concepts covered in FIN500 and provides a comprehensive array of skills to manage the finance function of a modern organization. It provides the necessary background both to understand and to apply financial-management techniques in order to be successful in positions of business management. Topics include capital structure and dividend theory, valuation models, portfolio theory, advanced cash flow analysis, and weighted and marginal cost of capital within a capital rationing model.

Course Overview:

In this course, you will explore the most common financial management operations of a corporation through the study of financial theories and applications. Topics include financial statement analysis, capital structure and dividend theory, valuation models, portfolio theory, stock options, and capital budgeting. This course strives to present a balance between quantitative methods and the decision making required for success in corporate finance.

Financial theories, focused on the valuation of securities such as stocks, bonds, and stock options, are presented. Through the comprehensive study of capital budgeting, you learn to compute and analyze expected cash flows and determine required rates of return through the study of the weighted average cost of capital. Ultimately, these decisions are made through the analysis of quantitative results.

The goal of financial management is to maximize firm value. While many of financial management's decisions are intuitive in nature, it is important to understand the basic financial theories that support the decisions that increase a firm's value. Thus, while we emphasize the rigorous quantitative applications of financial theory, the judgments necessary for successful financial management are equally examined.

Course Learning Outcomes:

1. Analyze the managerial aspects of finance and financial decision-making to maximize shareholder (owner) wealth, placing emphasis on the continuous process of deciding the best uses and sources of funds and the role of the financial manager in contributing to the overall planning and control activities

- of the business enterprise.
2. Measure risk and incorporate results in determining the value of financial assets and assessing capital investment projects.
 3. Analyze and apply the concepts underlying valuation models for bonds and preferred and common stocks, and evaluate current market prices of these assets considering fundamental valuation models.
 4. Evaluate investment alternatives for capital expenditures, and explain how the cost of capital, capital structure, and dividend policy influence the selection of capital investments.
 5. Evaluate ethical issues corporations and their employees confront in their daily operations and managerial decisions and analyze how unethical or dishonest behavior of financial managers can negatively affect the firm's market valuation and stakeholders.
 6. Integrate Time Value of Money concepts covered in the pre-requisite Financial Management course (FIN500) and apply them to advance finance case studies.

PARTICIPATION & ATTENDANCE

Prompt and consistent attendance in your online courses is essential for your success at CSU-Global Campus. Failure to verify your attendance within the first 7 days of this course may result in your withdrawal. If for some reason you would like to drop a course, please contact your advisor.

Online classes have deadlines, assignments, and participation requirements just like on-campus classes. Budget your time carefully and keep an open line of communication with your instructor. If you are having technical problems, problems with your assignments, or other problems that are impeding your progress, let your instructor know as soon as possible.

COURSE MATERIALS

Textbook Information is located in the CSU-Global Booklist on the Student Portal.

COURSE SCHEDULE

Due Dates

The Academic Week at CSU-Global begins on Monday and ends the following Sunday.

- **Discussion Boards:** The original post must be completed by Thursday at 11:59 p.m. MT and peer responses posted by Sunday at 11:59 p.m. MT. Late posts may not be awarded points.
- **Critical Thinking:** Assignments are due Sunday at 11:59 p.m. MT.

- **Live Classroom:** Although participation is not required, Live Classroom sessions are held during Week 3 and Weeks 6. There are two total sessions.

WEEKLY READING AND ASSIGNMENT DETAILS

Module 1

Required

- Chapters 1, 2, and 3 in *Financial Management: Theory and Practice*

Recommended

- Faello, J. (2015). Understanding the limitations of financial ratios. *Academy of Accounting & Financial Studies Journal*, 19(3), 75-85.
- Harris, J. (2015). Globalization, technology and the transnational capitalist class. *Foresight*, 17(2), 194–207.
- Grashuis, J. (2018). A quantile regression analysis of farmer cooperative performance. *Agricultural Finance Review*, 78(1), 65–82.

Suggested Videos

- Khan, S. 2012. Balance sheet and income statement relationship. Retrieved from <https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-state-me/financial-statements-tutorial/v/balance-sheet-and-income-statement-relationship>
- Khan, S. 2010. Basic Cash Flow Statement. Retrieved from <https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-state-me/financial-statements-tutorial/v/basic-cash-flow-statement>.

Discussion (25 points)

Critical Thinking (75 points)

Option #1

Use the **Template for Option 1** (linked under Module 1) to answer the following questions:

1. Using the financial statements in Section 1, calculate net operating working capital, total net operating capital, net operating profit after taxes, free cash flow, and return on invested capital for the most recent year.
2. Assume that there were 15 million shares outstanding at the end of the year, the year-end closing stock price was \$65 per share, and the after-tax cost of capital was 8%. Calculate EVA and MVA for the most recent year.
3. Why are these ratios important? Who are three users of these ratios and what are they used for?

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*
- *Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Support your answers with the readings from Module 1 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.*
- *Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

Option #2

Use the **Template for Option 2** (Linked in Module 1) to answer the following questions:

1. Has J&W's liquidity position improved or worsened? Explain.
2. Has J&W's ability to manage its assets improved or worsened? Explain.
3. How has J&W's profitability changed during the last year?
4. Perform an extended Du Pont analysis for J&W for 2015 and 2016.

Possible replacement for Option #2

Have students read the article:

Sehra, A., Cohen, R., & Arulchandran, V. (2018). On cryptocurrencies, digital assets and private money. *Journal of Payments Strategy & Systems*, 12(1), 13-32.

Have students discuss how cryptocurrencies and digital assets have affected the US and global financial markets. Also, discuss how financial technology (FinTech) has either benefited or hurt corporate cash flows.

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*
- *Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Support your answers with the readings from Module 1 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.*
- *Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

Module 2

Required

- Chapter 5 in *Financial Management: Theory and Practice*
- Willis, J. L., & Guangye, C. (2015). Has the U.S. economy become less interest rate sensitive? *Economic Review (01612387)*, 100(2), 5-36.
- Kim, J.-M., & Jung, H. (2018). Dependence structure between oil prices, exchange rates, and interest rates. *The Energy Journal*, 39(2), 259-280. (To view this reading, please open the link provided and download the "PDF full text".)

Recommended

- Jing-Zhi, H., Rossi, M., & Yuan, W. (2015). Sentiment and corporate bond valuations before and after the onset of the credit crisis. *Journal of Fixed Income*, 25(1), 34-57.
- Nguyen, J. (2019, March 12). Yield vs Interest Rate: What's the Difference? Retrieved from <https://www.investopedia.com/ask/answers/09/difference-between-yields-and-interest-rate.asp>
- Hatch, K., Rai, V., Doe, T., & Miller, J. (2017). Up-to-date interest rate curve and tax law changes: What are the effects on the municipal market?. *Municipal Finance Journal*, 38(3). (To view this reading, please open the link provided and download the "PDF full text".)

Discussion (25 points)

Critical Thinking (95 points)

Option #1

Sam Strother and Shawna Tibbs are vice presidents of Mutual of Seattle Insurance Company and co-directors of the company's pension fund management division. An important new client, the North-Western Municipal Alliance, has requested that Mutual of Seattle present an investment seminar to the mayors of the represented cities, and Strother and Tibbs, who will make the actual presentation, have asked you to help them by answering the following questions.

Answer the following questions:

1. What are the key features of a bond?
2. What are call provisions and sinking fund provisions? Do these provisions make bonds more or less risky?
3. How does one determine the value of any asset whose value is based on expected future cash flows?
4. How is the value of a bond determined? What is the value of a 10-year, \$1,000 par value bond with a 10% annual coupon if its required rate of return is 10%?
5. What would be the value of the bond described in Part d if, just after it had been issued, the expected inflation rate rose by 3 percentage points, causing investors to require a 13% return? Would we now have a discount or a premium bond?

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*
- *Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Support your answers with the readings from Module 2 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.*

- *Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

Option #2

A 20-year, 8% semiannual coupon bond with a par value of \$1,000 may be called in 5 years at a call price of \$1,040. The bond sells for \$1,100. (Assume that the bond has just been issued.)

Basic Input Data:		
Years to maturity:		20
Periods per year:		2
Periods to maturity:		
Coupon rate:		8%
Par value:		\$1,000
Periodic payment:		
Current price		\$1,100
Call price:		\$1,040
Years till callable:		5
Periods till callable:		

1. What is the bond's yield to maturity?
2. What is the bond's current yield?
3. What is the bond's capital gain or loss yield?
4. What is the bond's yield to call?
5. How would the price of the bond be affected by changing the going market interest rate? (Hint: Conduct a sensitivity analysis of price to changes in the going market interest rate for the bond. Assume that the bond will be called if and only if the going rate of interest falls below the coupon rate. That is an oversimplification, but assume it anyway for purposes of this problem.)

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*

- Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.
- Support your answers with the readings from Module 2 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.
- Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.

Module 3

Readings Required

- Chapter 7 in *Financial Management: Theory and Practice*
- Zhang, X. F. (2015). Accounting information and equity valuation: Theory, evidence, and applications. *Accounting Review*, 90(3), 4. (To view this reading, please open the link provided and download the "PDF full text".)
- Bansal, V. (2018). A statistical inquiry into the correlation of income and balance sheet metrics on equity valuation. *Journal of Accounting and Finance*, 18(5), 170-174. (To view this reading, please open the link provided and download the "PDF full text".)
- Schreder, M. (2018). Idiosyncratic information and the cost of equity capital: A meta-analytic review of the literature. *Journal of Accounting Literature*, 41, 142-172.
- Chiang, T., & Zhang, Y. (2018). An empirical investigation of risk-return relations in Chinese equity markets: Evidence from aggregate and sectoral data. *International Journal of Financial Studies*, 6(2), 1-22. doi:10.3390/ijfs6020035.

Recommended

- The Valuation Implications from the New Tax Law (article). (n.d.). Retrieved from <https://www.cbiz.com/insights-resources/details/articleid/6231/the-valuation-implications-from-the-new-tax-law-article>
- Investopedia. (2018, March 02). Investment Valuation Ratios: Price/Earnings Ratio. Retrieved from <https://www.investopedia.com/university/ratios/investment-valuation/ratio4.asp>
- Cherewyk, P. (2019, March 12). How to Evaluate Firms Using Present Value of Free Cash Flows. Retrieved from <https://www.investopedia.com/articles/fundamental-analysis/11/present-value-free-cash-flow.asp>

Discussion (25 points)

Live Classroom (0 points)

Critical Thinking (90 points)

Option #1

Selected data for the DB Corporation are shown in the **Template for Option 1** (linked at the bottom of the page). Use the data to answer the following questions.

1. Calculate the estimated horizon value (i.e., the value of operations at the end of the forecast period immediately after the Year-4 free cash flow). Assume growth becomes constant after Year 3.
2. Calculate the present value of the horizon value, the present value of the free cash flows, and the estimated Year-0 value of operations.
3. Calculate the estimated Year-0 price per share of common equity. What do these values tell us about the organization's values in the future?

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*
- *Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Support your answers with the readings from Module 3 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.*
- *Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

Option #2

TD Corporation has a 15% weighted average cost of capital (WACC). Its most recent sales were \$980 million and its total net operating capital is \$870 million. The following shows estimates of the forecasted growth rates, operating profitability ratios, and capital requirement ratios for the next three years. These ratios are expected to remain constant after the third year. Use this information to answer the following questions.

Estimated Data for Traver-Dunlap Corporation:

		Forecast		
		1	2	3
Annual sales growth rate		20%	6%	6%
Operating profitability (NOPAT/Sales)		12%	10%	10%
Capital requirement (OpCap/Sales)		80%	80%	80%

Tax rate		35%	35%	35%
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Answer the following questions:

1. Use the data to forecast sales, net operating profit after taxes (NOPAT), total net operating capital (OpCap), free cash flow (FCF), growth rate in FCF, and return on invested capital (ROIC) for the next three years. What is the FCF growth rate for Year 3 and how does it compare with the growth rate in sales? What is the ROIC for Year 3 and how does it compare with the 15% WACC?
2. What is the value of operations at Year 3, Vop_3 ? What is the current value of operations, Vop_0 ? How does the value of operations at Year 0 compare with the total net operating capital at Year 3, and what might explain this relationship?
3. Suppose the growth rates for Years 2, 3, and thereafter can be increased to 7%. What is the new value of operations? Did it go up or down? Why did it change in this manner?
4. Return the growth rates to the original values. Now suppose that the capital requirement ratio can be decreased to 60% for all three years and thereafter. What is the new value of operations? Did it go up or down relative to the original base case? Why did it change in this manner?
5. Leave the capital requirement ratios at 60% for all three years and thereafter, but increase the sales growth rates for Years 2, 3, and thereafter to 7%. What is the new value of operations? Did it go up or down relative to the other scenarios? Why did it change in this manner?

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*
- *Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Support your answers with the readings from Module 3 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.*
- *Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

Module 4

Readings Required

- Chapter 25 in *Financial Management: Theory and Practice*
- Jacob Leal, S. (2015). Fundamentalists, chartists, and asset pricing anomalies. *Quantitative Finance*, 15(11), 14. (To view this reading, please open the link provided and download the "PDF full text".)
- Hawley, J., & Lukomnik, J. (2017). The long and short of it: Are we asking the right questions: Modern portfolio theory and time horizons. *Seattle UL Rev.*, 41(2), 449-474. Retrieved from <http://digitalcommons.law.seattleu.edu/sulr/>.

- Arici, G., Dalai, M., Leonardi, R., & Spalvieri, A. (2019). A communication theoretic interpretation of Modern Portfolio Theory including short sales, leverage and transaction costs. *Journal of Risk and Financial Management*, 12(1), 1-11. Retrieved from <https://www.mdpi.com/1911-8074/12/1/4/htm>
- Matthies, B., Jacobsen, J., Knoke, T., Paul, C., & Valsta, L. (2019). Utilising portfolio theory in environmental research - New perspectives and considerations. *Journal of Environmental Management*, 231, 926-939.
- Solares, E., Coello Coello, C. A., Fernandez, E., & Navarro, J. (2019). Handling uncertainty through confidence intervals in portfolio optimization. *Swarm and Evolutionary Computation*, 44, 774-787.

Recommended

- Definition of "Beta" - NASDAQ Financial Glossary. (n.d.). Retrieved from <https://www.nasdaq.com/investing/glossary/b/beta>
- Beginners' Guide to Asset Allocation, Diversification, and Rebalancing. (n.d.). Retrieved from <https://www.investor.gov/additional-resources/general-resources/publications-research/info-sheets/beginners'-guide-asset>
- The Valuation Implications from the New Tax Law (article). (n.d.). Retrieved from <https://www.cbiz.com/insights-resources/details/articleid/6231/the-valuation-implications-from-the-new-tax-law-article>
- Jung, S., Dalbor, M., & Lee, S. (2018). Internationalization as a determinant of systematic risk: The role of restaurant type. *International Journal of Contemporary Hospitality Management*, 30(8), 2791–2809. (To view this reading, please open the link provided and download the "PDF full text".) Retrieved from <https://www.emeraldinsight.com/doi/abs/10.1108/IJCHM-06-2017-0321>

Discussion (25 points)

Critical Thinking (95 points)

Option #1

Answer the following questions:

1. Security A has an expected rate of return of 6%, a standard deviation of returns of 30%, a correlation coefficient with the market of 0.25, and a beta coefficient of 0.5. Security B has an expected return of 11%, a standard deviation of returns of 10%, a correlation with the market of 0.75, and a beta coefficient of 0.5. Which security is riskier? Why?
2. The standard deviation of stock returns for Stock A is 40%. The standard deviation of the market return is 20%. If the correlation between Stock A and the market is 0.70, then what is Stock A's beta?
3. An analyst has modeled the stock of Crisp Trucking using a two-factor APT model. The risk-free rate is 6%, the expected return on the first factor r_1 is 12%, and the expected return on the second factor r_2 is 8%. If $b_1 = 0.7$ and $b_2 = 0.9$, what is Crisp's required return?
4. Stock A has an expected return of 12% and a standard deviation of 40%. Stock B has an expected return of 18% and a standard deviation of 60%. The correlation coefficient between Stocks A and B

is 0.2. What are the expected return and standard deviation of a portfolio invested 30% in Stock A and 70% in Stock B?

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*
- *Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Support your answers with the readings from Module 4 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.*
- *Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

Option #2

Compute the beta for a stock that is included in the Dow Jones Industrial Average using regression analysis in Excel. Here are the instructions:

<https://www3.nd.edu/~scorwin/fin70610/Excel%20Beta%20Example.xls>

Here is another reference for students to use to help complete this assignment:

How Can I Create a Linear Regression in Excel?

Answer the following questions:

1. Find the beta reported at a financial website such as Yahoo Finance or Google Finance.
2. Describe how this beta compares with the beta you have calculated.
3. Discuss the R-squared value of your beta and the statistical predictive value of beta.
4. Describe what the empirical financial research indicates regarding the accuracy of beta as a predictor of risk.
5. Include an appendix containing all calculations.

Your paper should meet the following requirements:

- Be approximately 2 pages in length, not including the cover page and reference page.
- Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.
- Support your answers with the readings from Module 4 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.
- Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.

Module 5

Readings Required

- Chapter 10 in *Financial Management: Theory and Practice*
- Saxena, A. K. (2015). Capital budgeting principles: Bridging theory and practice. *Academy of Accounting & Financial Studies Journal*, 19(3), 11.
- Angelo, B., Ayres, D., & Stanfield, J. (2018). Power from the ground up: Using data analytics in capital budgeting. *Journal of Accounting Education*, 42, 27–39.

Recommended

- (n.d.). Retrieved from <http://www.teachmefinance.com/capitalbudgeting.html>
- (n.d.). Retrieved from <http://www.teachmefinance.com/costofcapital.html>
- Johnson, N. B., Pfeiffer, T., & Schneider, G. (2017). Two-stage capital budgeting, capital charge rates, and resource constraints. *Review of Accounting Studies*, 22(2), 933-963.
- Statement on Digital Asset Securities Issuance and Trading. (2018, November 16). Retrieved from <https://www.sec.gov/news/public-statement/digital-asset-securites-issuance-and-trading>
- Fidelity Digital Assets, & Fidelity Digital. (2018, October 15). The Evolution of Digital Cash. Retrieved from <https://medium.com/@FidelityDigitalAssets/the-evolution-of-digital-cash-da19b06aa58e>

Discussion (25 points)

Critical Thinking (95 points)

Option #1

GS Fishing is considering two mutually exclusive investments. The projects' expected net cash flows are as follows:

	Expected Net Cash Flows	
Time	Project A	Project B
0	(\$375)	(\$575)

1	(\$300)	\$190
2	(\$200)	\$190
3	(\$100)	\$190
4	\$600	\$190
5	\$600	\$190
6	\$926	\$190
7	(\$200)	\$0

Answer the following questions:

1. If each project's cost of capital is 12%, which project should be selected? If the cost of capital is 18%, what project is the proper choice?
2. Construct NPV profiles for Projects A and B.
3. What is each project's IRR?
4. What is the crossover rate, and what is its significance?

Your paper should meet the following requirements:

- *Be approximately 2 pages in length, not including the cover page and reference page.*
- *Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Support your answers with the readings from Module 5 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.*
- *Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

Option #2

DD Industries must choose between a gas-powered and an electric-powered forklift truck for moving materials in its factory. Because both forklifts perform the same function, the firm will choose only one. (They are mutually exclusive investments.) The electric-powered truck will cost more, but it will be less expensive to operate; it will cost \$22,000, whereas the gas-powered truck will cost \$17,500. The cost of capital that

applies to both investments is 12%. The life for both types of truck is estimated to be 6 years, during which time the net cash flows for the electric-powered truck will be \$6,290 per year and those for the gas-powered truck will be \$5,000 per year. Annual net cash flows include depreciation expenses. Calculate the NPV and IRR for each type of truck, and decide which to recommend.

Your paper should meet the following requirements:

- Be approximately 2 pages in length, not including the cover page and reference page.
- Follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.
- Support your answers with the readings from Module 5 and at least one scholarly journal article. The CSU-Global Library is a great place to find resources.
- Be clear and well written, concise, and logical, using excellent grammar and style techniques. You are being graded in part on the quality of your writing. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.

Portfolio Milestone (10 points)

Read the information on the Portfolio Project in the Module 8 folder. Be sure to carefully study the project requirements. Requirement 1 is due this week.

Complete Requirement 1 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 6. Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project.

Module 6

Readings Required

- Chapter 15 in *Financial Management: Theory and Practice*
- Armstrong, V. S. (2015). Using real option analysis to improve capital budgeting decisions when project cash flows are subject to capacity constraints. *Academy of Accounting & Financial Studies Journal*, 19(2), 8.
- Johnstone, D. (2015). When are investment projects in the same risk class? *Accounting & Finance*, 57(2), 499–510.
- Johnstone, D. (2016). The effect of information on uncertainty and the cost of capital. *Contemporary Accounting Research*, 33(2), 752-774.

Recommended

- Browse the Collection. (n.d.). Retrieved from <https://www.cfainstitute.org/membership/professional-development/collection>

- Maverick, J. (2019, March 12). What are some examples of preferred stock, and why do companies issue it? Retrieved from <https://www.investopedia.com/ask/answers/020915/what-are-some-examples-preferred-stock-and-why-do-companies-issue-it.asp>

Discussion (25 points)

Live Classroom (0 points)

Portfolio Milestone (10 points)

Read the information on the Portfolio Project in the Module 8 folder. Be sure to carefully study the project requirements. Requirement 2 is due this week.

Complete Requirement 2 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. Additionally, work received later than Week 7 of the course will not receive feedback prior to the final grading of the Portfolio Project.

Module 7

Readings Required

- Chapter 26 in *Financial Management: Theory and Practice*
- Israelov, R., & Nielsen, L. N. (2014). Covered call strategies: One fact and eight myths. *Financial Analysts Journal*, 70(6), 9. (To view this reading, please open the link provided and download the "PDF full text".)
- Mitra, S. (2017). Efficient option risk measurement with reduced model risk. *Insurance Mathematics and Economics*, 72, 163-174.

Recommended

- (n.d.). Retrieved from <http://www.teachmefinance.com/capitalbudgeting.html>
- Culkin, R., & Das, S. R. (2017). Machine learning in finance: The case of deep learning for option pricing. *Journal of Investment Management*, 15(4), 92-100.
- Intrinsic Value
- Advocacy & Resources. (n.d.). Retrieved from <https://www.sifma.org/resources/>

Discussion (25 points)

Module 8

Readings Required

- Chapter 14 in *Financial Management: Theory and Practice*
- Caliskan, D., & Doukas, J. A. (2015). CEO risk preferences and dividend policy decisions. *Journal of Corporate Finance*, 35, 25.
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Discussion (25 points)

Portfolio Project (330 points)

Portfolio Assignment Option #1

IW Technologies (IWT) is a 6-year old company founded by Harold Jacksen and Donald Smith to exploit metamaterial plasmonic technology to develop and manufacture miniature microwave frequency directional transmitters and receivers for use in mobile Internet and communications applications. The technology, although highly-advanced, is relatively inexpensive to implement and their patented manufacturing techniques require little capital in comparison to many electronics fabrication ventures. Because of the low capital requirement, J&S have been able to avoid issuing new stock and thus own all of the shares. Because of the explosion in demand for its mobile Internet applications, IWT must now access outside equity capital to fund its growth and J&S have decided to take the company public. Until now, J&S have paid themselves reasonable salaries but routinely reinvested all after-tax earnings in the firm, so dividend policy has not been an issue. However, before talking with potential outside investors, they must decide on a dividend policy.

Your new boss at the consulting firm FLT and Associates, which has been retained to help IWT prepare for its public offering, has asked you to make a presentation to Jackson and Smithfield in which you review the theory of dividend policy and discuss the following issues.

1. Due in Module 5
 - a. What is meant by the term "distribution policy"? How have dividend payouts versus stock repurchases changed over time?
 - b. The terms "irrelevance," "dividend preference, or bird-in-the-hand," and "tax effect" have been used to describe three major theories regarding the way dividend payouts affect a firm's value. Explain what these terms mean, and briefly describe each theory.
2. Submit the spreadsheet by Sunday of Week 5 so the instructor can review your work and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 5.

Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project.

3. Due in Module 6
 - a. What do the three theories indicate regarding the actions management should take with respect to dividend payouts?
 - b. What results have empirical studies of the dividend theories produced? How does all this affect what we can tell managers about dividend payouts?
4. Complete Requirement 2 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 6. Additionally, work received later than Week 7 of the course will not receive feedback prior to the final grading of the Portfolio Project.
5. Discuss (1) the clientele effect, (2) the information content, or signaling, hypothesis, and (3) their effects on dividend policy.
6. Assume that IWT has a \$112.5 million capital budget planned for the coming year. You have determined its present capital structure (80% equity and 20% debt) is optimal, and its net income is forecasted at \$140 million. Use the residual distribution model approach to determine IWT's total dollar distribution. Assume for now that the distribution is in the form of a dividend. IWT has 100 million shares. What is the forecasted dividend payout ratio? What is the forecasted dividend per share?
7. What would happen to the payout ratio and DPS if net income were forecasted to decrease to \$90 million?
8. What would happen to the payout ratio and DPS if net income were forecasted to increase to \$160 million?
9. In general terms, how would a change in investment opportunities affect the payout ratio under the residual payment policy?
10. What are the advantages and disadvantages of the residual policy? (Hint: Don't neglect signaling and clientele effects.)
11. Describe the procedures a company follows when it makes a distribution through dividend payments.
12. What is a stock repurchase? Describe the procedures a company follows when it makes a distribution through a stock repurchase.
13. What are stock repurchases? Discuss the advantages and disadvantages of a firm's repurchasing its own shares.
14. Suppose IWT has decided to distribute \$50 million, which it presently is holding in very liquid short-term investments. IWT's value of operations is estimated to be about \$1,937.5 million. IWT has \$387.5 million in debt (it has no preferred stock). As mentioned previously, IWT has 100 million shares of stock outstanding.
15. Assume that IWT has not yet made the distribution. What is IWT's intrinsic value of equity? What is its intrinsic per share stock price?
16. Now suppose that IWT has just made the \$50 million distribution in the form of dividends. What is IWT's intrinsic value of equity? What is its intrinsic per share stock price?
17. Suppose instead that IWT has just made the \$50 million distribution in the form of a stock repurchase. Now what is IWT's intrinsic value of equity? How many shares did IWT repurchase? How many shares remained outstanding after the repurchase? What is its intrinsic per share stock price after the repurchase?

Your paper must meet the following requirements:

- *Be approximately 4-6 pages in length, not including the cover page and reference page.*
- *Be sure to follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Your paper must be clearly and well written using excellent grammar and style techniques. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*
- *Refer to the Portfolio Project grading rubric available in the Module 8 Folder for information on grading details.*

Portfolio Assignment Option #2 - Financial Expansion Analysis

Assume you have just been hired as a business manager of PPPZ Pizza, a regional pizza restaurant chain. The company's EBIT was \$50 million last year and is not expected to grow. The firm is currently financed with all equity and it has 10 million shares outstanding. When you took your corporate finance course, your instructor stated that most firms' owners would be financially better off if the firms used some debt. When you suggested this to your new boss, he encouraged you to pursue the idea. As a first step, assume that you obtained from the firm's investment banker the following estimated costs of debt for the firm at different capital structures:

Percent Financed		
with debt, w_d		r_d
0%		0.0%
20%		8.0%
30%		8.5%
40%		10.0%
50%		12.0%

If the company were to recapitalize, debt would be issued, and the funds received would be used to repurchase stock. PPPZ Palace is in the 40% state-plus-federal tax bracket, the risk-free rate is 6 percent, and the market risk premium is 6 percent.

1. Due in Module 5
 - a. Provide a brief overview of capital structure effects. Be sure to identify the ways in which capital structure can affect the weighted average cost of capital and free cash flows.
 - b. What is business risk? What factors influence a firm's business risk?
 - c. What is operating leverage, and how does it affect a firm's business risk?
 - d. Show the operating breakeven point if a company has fixed costs of \$200, a sales price of \$15, and variable costs of \$10.
2. Submit the spreadsheet by Sunday of Week 5 so the instructor can review your work and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 5. Additionally, work received later than Week 6 of the course will not receive feedback prior to the final grading of the Portfolio Project. Due in Module 6
 - a. Now, to develop an example which can be presented to PPPZ Palace's management to illustrate the effects of financial leverage, consider two hypothetical firms: Firm U, which uses no debt financing, and Firm L, which uses \$10,000 of 12 percent debt. Both firms have \$20,000 in assets, a 40 percent tax rate, and an expected EBIT of \$3,000.
 - b. Construct partial income statements, which start with EBIT, for the two firms.
 - c. Now calculate ROE for both firms.
3. Complete Requirement 2 and submit your work by Sunday of this week so your professor can review and provide suggestions for improvement. No points will be assigned for this, but points will be deducted from your final grade on the Portfolio Project if you fail to submit this assignment by the end of Week 6. Additionally, work received later than Week 7 of the course will not receive feedback prior to the final grading of the Portfolio Project.
4. What does this example illustrate about the impact of financial leverage on ROE?
5. Explain the difference between financial risk and business risk.
6. What happens to ROE for Firm U and Firm L if EBIT falls to \$2,000? What does this imply about the impact of leverage on risk and return?
7. What does capital structure theory attempt to do? What lessons can be learned from capital structure theory? Be sure to address the MM models.
8. What does the empirical evidence say about capital structure theory? What are the implications for managers?
9. With the above points in mind, now consider the optimal capital structure for PPPZ Palace.

Your paper must meet the following requirements:

- *Be approximately 4-6 pages in length, not including the cover page and reference page.*
- *Be sure to follow the CSU-Global Guide to Writing and APA. Each paper should include an introduction, a body with at least two fully developed paragraphs, and a conclusion.*
- *Your paper must be clearly and well written using excellent grammar and style techniques. If you need assistance with your writing style, start with Tools for Effective Writing at the CSU-Global Library, accessible from the library's homepage.*

- Refer to the Portfolio Project grading rubric available in the Module 8 Folder for information on grading details.

Grading Scale	
A	95.0 – 100
A-	90.0 – 94.9
B+	86.7 – 89.9
B	83.3 – 86.6
B-	80.0 – 83.2
C+	75.0 – 79.9
C	70.0 – 74.9
D	60.0 – 69.9
F	59.9 or below

COURSE POLICIES

Course Grading

40% Discussion Participation
 45% Critical Thinking Assignments
 2% Portfolio Milestones
 33% Final Portfolio Project
 0% Live Classroom

IN-CLASSROOM POLICIES

For information on late work and incomplete grade policies, please refer to our **In-Classroom Student Policies and Guidelines** or the Academic Catalog for comprehensive documentation of CSU-Global institutional policies.

Academic Integrity

Students must assume responsibility for maintaining honesty in all work submitted for credit and in any other work designated by the instructor of the course. Academic dishonesty includes cheating, fabrication, facilitating academic dishonesty, plagiarism, reusing /repurposing your own work (see CSU-Global Guide to Writing & APA for percentage of repurposed work that can be used in an assignment), unauthorized possession of academic materials, and unauthorized collaboration. The CSU-Global Library provides information on how students can avoid plagiarism by understanding what it is and how to use the Library and internet resources.

Citing Sources with APA Style

All students are expected to follow the CSU-Global Guide to Writing & APA when citing in APA (based on the most recent APA style manual) for all assignments. A link to this guide should also be provided within most assignment descriptions in your course.

Disability Services Statement

CSU-Global is committed to providing reasonable accommodations for all persons with disabilities. Any student with a documented disability requesting academic accommodations should contact the Disability Resource Coordinator at 720-279-0650 and/or email ada@CSUGlobal.edu for additional information to coordinate reasonable accommodations for students with documented disabilities.

Netiquette

Respect the diversity of opinions among the instructor and classmates and engage with them in a courteous, respectful, and professional manner. All posts and classroom communication must be conducted in accordance with the student code of conduct. Think before you push the Send button. Did you say what you meant? How will the person on the other end read the words?

Maintain an environment free of harassment, stalking, threats, abuse, insults, or humiliation toward the instructor and classmates. This includes, but is not limited to, demeaning written or oral comments of an ethnic, religious, age, disability, sexist (or sexual orientation), or racist nature; and unwanted sexual advances or intimidations by email, or on discussion boards and other postings within or connected to the online classroom. If you have concerns about something that has been said, please let your instructor know.