



Madrid
SAINT LOUIS UNIVERSITY
THE AMERICAN JESUIT UNIVERSITY IN SPAIN

PRINCIPLES OF FINANCE
FIN-301
SPRING SEMESTER 2012

Professor	: Paolo Saona Hoffmann, Ph.D.
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E-mail	: psaonaho@slu.edu (please use the prefix “FIN-301” to start the subject line in all e-mails pertaining to this class. For example: “FIN-301 – I will be absent on Friday”)
Classes	: Monday, Wednesday, Friday, 12:00-12:50 PM at PAH 25
Office hours	: Monday, Wednesday, Friday, 09:00 AM - 11:40 AM
Prerequisite	: ACCT-220, DSCI-207 and ECON-190; co-requisite: ACCT-222
Credits	: 3
Curriculum	: Business core requirement

Course description:

The primary goal of the course is to introduce you to the world of finance. Topics to be covered include financial management and concepts, risk and rates of returns, time value of money, valuation of bonds and stocks, capital structure concepts, derivatives and risk management, and issues in multinational financial management. As stipulated in the university catalogue, students should already have completed a course in both accounting and economics.

Learning objectives (desired student achievements) for FIN-301

1. Identify shareholder wealth maximization as the goal of the firm
2. Identify alternative forms of business organization
3. Compute the present and future value of an annuity of cash flows
4. Compute interest rates and draw the time lines
5. Understand the main components of the balance sheet, income statement, statement of retained earnings, and the statement of cash flows
6. Given the main financial reports, compute standard ratios such as the liquidity ratios, assets and debt management ratios, profitability ratios and market ratios
7. Give a critical interpretation of these main financial ratios
8. Define the different kinds of bonds as a long term source of funds
9. Perform the valuation of bonds, identifying the current yield, the capital gain yield, and the yield to maturity
10. Identify the relationship between the risk and return of a security
11. Define the different kinds of stocks as a long term source of funds
12. Perform the valuation of stocks with the main valuation models (capital asset pricing model, and growth dividend model)
13. Define and compute the weighted average cost of capital for investment project's valuation



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14. Compute the cost of debt, the cost of common stocks, and the cost of preferred stock
15. Choose between capital investments when net present value (NPV), internal rate of return (IRR), modified internal rate of return (MIRR), and payback period (PBP) give conflicting signals.
16. Identify the different kinds of derivatives, and understand the rationale behind the call and put stock options
17. Compute the Black & Scholes option pricing model (OPM)
18. Compute and differentiate the direct and indirect quotation of foreign exchange rates

Required Textbook: *Fundamentals of Financial Management* by E. Brigham and J. Houston, Harcourt College Publishers (12th Edition) and the teacher notes presented in the classes.

Financial calculator: HP-10B or HP-17B highly recommended.

Recommended Readings: *The Economist*, *The Wall Street Journal*, *Harvard Business Review*, *Financial Times*.

General Information:

This course will be taught with a combination of lectures and interactive discussion sessions and the solution of different examples and exercises. Lecture sessions will cover key aspects of conceptual and difficult sections of the chapter. Recommended readings are optional. Tests will be based on lectures, the study of the chapters, and assigned readings.

Grade Components and dates:

Mid Term Test (25%) –Wednesday, February 22–

Final Examination (40%) –Monday, May 7 at 12:00 hrs–

Quizzes and assignments (35%) –February 15, and April 23–

Grade Scale:

A mark of x on an examination or assignment will result in a(n):

$$90.0 \leq x < 95.0 = A-$$

$$80.0 \leq x < 84.0 = B-$$

$$70.0 \leq x < 74.0 = C-$$

$$95.0 \leq x \leq 100 = A$$

$$84.0 \leq x < 87.0 = B$$

$$74.0 \leq x < 77.0 = C$$

$$60.0 \leq x < 70.0 = D$$

$$x < 60.0 = F$$

$$87.0 \leq x < 90.0 = B+$$

$$77.0 \leq x < 80.0 = C+$$



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Grading Methodology:

Term Tests (65%): There will be a total of two tests (1 midterm and 1 final examination).

Quizzes and assignments (35%): Previously to the mid-term test the students will take a quiz in order to be better prepared for the mid-term. The assignments (2) will be based on the solution of particular cases related with the studied topics.

For participation in classes, students will be called upon randomly throughout the semester to give answers or comments on questions and issues. It is expected that the student attend the classes and follow the chapters with a high critical thinking behavior.

Course Outline¹

Part 1: Introduction to Financial Management

- 1.1 *Introduction to financial management (Chapter 1)*
Career opportunities in finance
Alternative forms of business organization
The goals of the corporation
Agency relationship

Part 2: The Fundamental Concepts in Financial Management

- 2.1 *Financial statements, cash flow, and taxes (Chapter 3)*
The history of financial statements
The balance sheet
The income statement
The statement of retained earnings and the statement of cash flows
- 2.2 *Analysis of financial statements (Chapter 4)*
Ratio analysis –liquidity, assets and debt management, and profitability ratios–
Market value ratios and their interpretation
- 2.3 *Time value of money (Chapter 5)*
Time lines
Future value
Present value
The interest rate and time
Future and present value of an annuity
Uneven cash flow streams

¹ This schedule is subject to change. Eventual variations will be announced in class.



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Part 3: Financial Assets

- 3.1 *Bonds and their valuation (Chapter 7)*
What is and who issue bonds?
Key characteristics of a bond
Bond valuation
Bond yield
- 3.2 *Risk and rates of return (Chapter 8)*
Investment return
Stand-alone risk
The relationship of risk and rates of return
- 3.2 *Stocks and their valuation (Chapter 9)*
What is a stock and types of common stocks?
Common stock valuation
Constant growth stocks
Stock price and stock return

Part 4: Capital Budgeting

- 4.1 *The cost of capital (Chapter 10)*
The weighted average cost of capital: what is it?
Basic definitions
The cost of debt
The cost of common stocks
The cost of preferred stocks
- 4.2 *The basics of capital budgeting (Chapter 11)*
Importance of capital budgeting
Project classifications
Similarities between capital budgeting and security valuation
Capital budgeting decision rules
The NPV and the IRR
The modified internal rate of return –MIRR–

Part 5: Special Topics in Financial Management

- 5.1 *Derivatives and risk management (Chapter 18)*
Background of derivatives
Options –call and puts–
Introduction to the option pricing models



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The Black & Scholes option pricing model (OPM)
Fundamentals of risk management

- 5.2 *Multinational financial management (Chapter 19)*
Multinational and global corporations
Multinational versus domestic financial management
Exchange rates
Fundamentals of the international monetary system

Classroom Philosophy, Policy of Missing Exams & Late Submission:

- You are required to attend each class session prepared to participate and think critically during lecture and discussion sessions. You will be required to prepare in advance each class according to the instructions of the professor. As responsible adults, I trust you will be able to sustain a mutually respectful classroom atmosphere by treating all classmates as equals.
- Tests and project report due dates are scheduled well in advance, so you can plan around these dates. I feel that exams/projects are fair to everyone if and only if everyone completes them at the same time. It is not only impossible to come up with an alternative which is fair to everyone but it also imposes a significant cost on other students and me. Therefore, I have strict policy on late assignments / exams.
- Any consideration for missing a test will be taken into account only under truly exceptional circumstances. I will require, at a minimum, a signed formal note and a phone number of the physician or other relevant person. Be aware that a mere note indicating that you visited a physician around the date of the exam will not be sufficient. The burden of the proof will be on the student.
- No late submissions for the study cases will be accepted. All required assignments are to be submitted on time. Students are expected to be working on the projects through out the term and not just on the last few days. Hardware failure or inaccessibility is not an excuse reason.
- There will be NO makeup exam / test. In order to be excused from an exam / test, the student must contact me before the exam. In most cases I will require students to provide me with additional documentation to justify why the student is unable to take the exam. Please note that a simple note indicating that you were seen at the health center the day of the exam does not, in and of itself provide sufficient documentation. Excuses will be granted if the student is unable to take the exam because of serious illness or injury, or a significant personal or professional commitment.
- Tardiness is at best a rude disruption to your fellow classmates who are punctual, and except for legitimate reasons (doctor's letter certifying illness for example), you are expected to attend all class sessions.



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Accommodation statement:

Students with Disabilities: Any student who qualifies for special accommodations, due to presence of a disability, and feels it necessary to utilize them in order to meet the requirements of this course-as outlined in the syllabus, should contact Counseling/Disability Services. Please phone the office at 91 554-5858 (Ext. 230), or send an e-mail to disabilityservices-madrid@slu.edu. Students may also stop by the Counseling/Disabilities Services office in the Manresa building. Confidentiality will be observed in all inquiries.

Academic Dishonesty:

The following is a statement of minimum standards for student academic integrity at Saint Louis University.

The University is a community of learning, whose effectiveness requires an environment of mutual trust and integrity, such as would be expected at a Jesuit, Catholic institution. As members of this community, students, faculty, and staff members share the responsibility to maintain this environment. Academic dishonesty violates it. Although not all forms of academic dishonesty can be listed here, it can be said in general that soliciting, receiving, or providing any unauthorized assistance in the completion of any work submitted toward academic credit is dishonest. It not only violates the mutual trust necessary between faculty and students but also undermines the validity of the University's evaluation of students and takes unfair advantage of fellow students. Further, it is the responsibility of any student who observes such dishonest conduct to call it to the attention of a faculty member or administrator.

Examples of academic dishonesty would be copying from another student, copying from a book or class notes during a closed-book exam, submitting materials authored by or editorially revised by another person but presented as the student's own work, copying a passage or text directly from a published source without appropriately citing or recognizing that source, taking a test or doing an assignment or other academic work for another student, tampering with another student's work, securing or supplying in advance a copy of an examination without the knowledge or consent of the instructor, and colluding with another student or students to engage in an act of academic dishonesty, and making unauthorized use of technological devices in the completion of assignments or exams.

Where there is clear indication of such dishonesty, a faculty member or administrator has the responsibility to apply appropriate sanctions. Investigations of violations will be conducted in accord with standards and procedures of the school or college through which the course or research is offered. Recommendations of sanctions to be imposed will be made to the dean of the school or college in which the student is enrolled. Possible sanctions for a violation of academic integrity include, but are not limited to, disciplinary probation, suspension, and dismissal from the University. The complete SLU Academic Honesty Policy



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can be found at the following link:

http://spain.slu.edu/academics/academic_advising/docs/Academic_integrity.pdf

Last Day to Drop a Class Without a Grade of W and/or to Add a Class: January 24, 2012
Last Day to Choose Audit (AU) or Pass/No Pass (P/NP) Options: February 8, 2012
Last Day to Drop a Class and Receive a Grade of W: February March 911, 2012