Economics 227
Introduction to Financial Analysis
Fall 2015
Tuesdays and Thursdays 9-10:20am in PAC 107

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Office Hours:	Tuesdays, Wednesdays, and Thursdays 1:30-3pm[1]
TAs:	Madison Moore (mjmoore) and Matthew Weinsier (mweinsier)
TA Sessions:	Sundays 7-9pm in PAC 107 except for PS9 (Wed. Dec. 2nd)

General Course Information

Purpose: The course introduces students to the primary sources of information and data used in equity and debt valuation, and portfolio management. Both corporate finance and investment finance topics will be covered: financial statement analysis; micro- and macro-economic analyses of how industry trends and economic growth impact corporate performance; discounted cash flow analysis; asset pricing models (bonds, DDM, CAPM, APT); portfolio theory; and, time permitting, capital structure. This will be a very intense inquiry-based course with significant hands-on work analyzing data of publicly traded companies.

Assignments and Credit:

Class participation	5%
Problem Sets (8 of 9)	10%
Case study	15%
Midterm 1	20%
Midterm 2	25%
Midterm 3	25%
Total	**100%**

Readings: The required text is Ross, Westerfeld, Jaffe, and Jordan, *Corporate Finance: Core Principles & Applications*. Please use either the *3rd Edition* (ISBN 0-07-353068-9) or *4th Edition* (ISBN 0-07-786165-5). Please feel free to buy an international edition of the textbook – that will not cause any problems whatsoever. Chapter numbers in the course schedule refer to this text. One copy of the textbook (3rd edition) can be accessed at the reserve desk in the library; the first few chapters will also be available from the course moodle. Many articles, mostly short ones, will be distributed in class and then posted to the course moodle; *none of these will be optional unless specifically stated*.

You are expected to read the *Wall Street Journal* daily. You may also want to read *The New York Times* or *Financial Times* (daily) and/or *Barrons* (published every Saturday) but that will not be

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[1] Exceptions: no office hours on Wednesday September 23, Wednesday October 14, and Thursday October 15.

required. *Advance notice: exam questions are skewed towards more current topics (e.g., those covered more frequently and recently in the media).*

Class Participation: Class attendance is expected. You are expected to complete all assigned readings before class. I will use our class-time to focus on the most important or complex topics.

Students are expected to attend all lectures, be attentive, and be respectful during class sessions. As in all similar scenarios, there are certain rules. Please adhere to the following policies as your participation grade depends also on these:

- No use of computers, tablets, or cell phones during class sessions without instructor consent.
- No reading of materials unrelated to our class or prolonged private conversations during class sessions.
- Just like on planes, please switch your devices to "airplane mode" and turn off the ringer volume as soon as you come to class.
- Avoid getting up during class sessions unless absolutely necessary. This is not only disruptive but shows a lack of respect for me and others in the class.
- Be on time for class

Students who meet the above expectations will receive a *B* for class participation. To earn a higher grade a student will need to ask insightful questions as well as answer questions posed by me or others. I will give a *C* or lower for class participation to students who never participate in class or who are often not able to answer questions.

If you know that you will have to be late and/or leave early, please let me know in advance. Excessive absences, late arrivals or early departures will lead to a lower class participation grade.

Problem Sets: Problem sets are designed to help you master the material, and to provide some feedback on your progress in the course. There will be nine problem sets – assigned almost weekly – and I will drop your lowest grade. *Note: problem sets may occasionally cover material <u>before</u> it is covered in class.*

The odd-numbered problem sets will contain a mix of general qualitative and quantitative questions. However, in the even-numbered problem sets, everyone will answer a common set of questions about a set of companies. To maintain your appetite for learning, we'll study fast food restaurants (McDonalds, Chipotle, and YUM).

<u>Your TAs are not allowed to ever answer any questions about the problem sets before they are submitted</u>. Their weekly sessions will review the material by working with you to solve problems that have been assigned previously at the same juncture in this course. Thus, the material covered in the TA sessions will parallel and complement both what we do in class and what you do independently in the problem sets.

Problem sets will be due at 1pm on Wednesdays, and should be submitted via the Econ 227 slot in the departmental locked box. As the solutions to the problem sets will be posted promptly, <u>late problem sets will receive a maximum grade of check-minus</u>.

Grading will be on a check-plus, check, check-minus scale. *Seriously deficient problem sets will receive no credit.* The rough rubric for determining grades: all questions answered correctly or all questions answered using right strategies (but with possible computational errors) = check-plus; some questions skipped or many questions answered incorrectly = check-minus; and almost everything in between = check. Late assignments will only get a check-minus irrespective of quality as solutions will be available online as soon as the deadline for submission passes.

Up to three people may cooperate on each problem set; when students submit joint problem sets all students will get the same grade. Please do *not* list any students' name on the problem sets; instead, please put students' WesIDs. Assignments will be returned in class.

While you can use either a calculator or Excel to complete the problem sets, you will need a calculator for the midterm and final exams. I therefore recommend you use a calculator for at least some of the problem sets. You will want to use a calculator that allows the calculation of growth rates (i.e., a y^x button). If the calculator also has NPV and related functions, that will be even more convenient for you (particularly on exam days). If you have a financial calculator, you may find this tutorial website helpful: http://www.tvmcalcs.com/calculator_index.

You should view the problem sets as being mini-exams in the sense that the exam questions will be calibrated to the same degree of difficulty as the problem set questions. The two differences between problem sets and exams will be: (1) time constraints, and (2) resources (probably 2 pages double-sided of notes for each midterm exam). Note, that these constraints automatically mean that the exam questions will have to be easier and/or shorter than problem set questions.

Computer work: Nearly half of the homework assignments will involve the use of Excel. Wesleyan subscribes to a comprehensive corporate finance database, Research Insight, through which you can retrieve Compustat data (i.e., annual accounting level data for publicly listed U.S. firms), and an investment-oriented resource, Value Line.

Students are expected to attend an instructional session on Value Line, Research Insight and Excel. Please do not consider this session to be the least bit optional. You will need these skills for at least half of the problem sets, and it will be truly difficult, if not impossible, for you to fully master the material without these skills.

Manolis Kaparakis, head of the QAC, will hold two sessions on Wednesday, September 16 from 4:30-6:30pm and 7-9pm, both in Albritton 204. A google docs sign-up sheet will be circulated ahead of time. You will use these skills in most even-numbered problem sets.

Exams: I have posted to the course moodle the exams from fall 2014. Please note that these should be viewed as guides to the types and quantities of questions I might consider fair to ask on exams. However, please note that I do not feel any obligation to structure exams similarly year after year as course time is allocated slightly differently in each offering of a course.

The exams are designed to be completed within the standard 80 minute class period but you may take up to 100 minutes for each exam (or start at 8:40am vs. the usual 9am).

A review session with the professor will be held the night before the first two midterm exams as indicated on the course schedule. Your TAs will also be available for drop-in consultation in a TBD location later that night.

Exams will be given at the scheduled times only. Please do not enroll for this course if you cannot attend the scheduled exams. Attendance at review sessions is recommended but optional.

Case study: You will choose any company you like that is not in the same industry as the three companies we study in class (CMG, MCD, YUM), or are being researched extensively in the current semester section of Econ 329. One catch: no two students may select the same company. At a pre-announced time I will set up a google spreadsheet so that you can enter your company selections. If a company is already listed as unavailable or has already been selected by another student, you will have to choose another one.

Using your chosen company, you will replicate all the questions from one or more of our problem sets and extend the analysis. The only difference is that your analysis must cover 2005-2014 for two reasons: (1) to examine the impact of the global financial crisis, and (2) to show the limitations of using only recent years' data in analysis. The caveat is if your firm went public between 2004-2009, inclusive, you can cover fewer years. However, you must have a minimum of five years of data and thus cannot choose a company that went public after 2009. Your analysis will naturally require you to draw on the readings and may well draw color/context from recent news articles or, perhaps, articles you have read in this or other economics electives (and, of course, you'll cite these sources).

Your case study will be roughly 10 pages long (including all tables and attachments) in standard sized fonts (e.g., this is in Times 12) and with conventional margins. I will not read anything in excess of 13 pages or shorter than 8 pages. Grading is based primarily on the quality of your analysis. However, I expect your papers to be well-written and free of any grammatical, logical, or spelling errors. You are encouraged to take advantage of the writing workshop on campus.

Please submit a hard copy of the document to the locked box <u>and</u> upload it to the class folder on turnitin.com. The case study is due by 5pm on Friday, December 11th (the last day of classes); late papers will be penalized one letter grade per day late (or fraction thereof).

Turnitin.com: Directions on how to use turnitin.com can be found on www.turnitin.com. Our class id is 10602778 and the password is "econ227".

Honor Code: All work submitted for a grade in this course must be your own original work. In accordance with the Honor Code, submitting another person's work as your own would constitute plagiarism and will not be tolerated. *To put this in colloquial terms, unless you personally came up with the solutions and words that you are attaching your name to, it is* not *your work.* If you have any questions about the application of the honor code, please contact me.

Students with Disabilities: Wesleyan University is committed to ensuring that all qualified students with disabilities are afforded an equal opportunity to participate in and benefit from its programs and services. To receive accommodations, a student must have a documented

disability as defined by Section 504 of the Rehabilitation Act of 1973 and the ADA Amendments Act of 2008, and provide documentation of the disability. Since accommodations may require early planning and generally are not provided retroactively, please contact Disability Resources as soon as possible. If you believe that you need accommodations for a disability, please contact Dean Patey in Disability Resources, located in North College, Room 021, or call 860-685-5581 for an appointment to discuss your needs and the process for requesting accommodations. Information can be found at http://www.wesleyan.edu/studentaffairs/disabilities/.

Missed Assignments: Should a personal emergency necessitate missing a scheduled exam, contact me as soon as possible **prior to the exam date** to arrange for an alternative. Any such absence requires written certification from the Deans' Office. *Unexcused absences will result in a failing grade for the course.*

Contact: Email is my preferred way of being contacted. Normally I will respond within a day, excluding illness and travel. Placing in the subject of your email the phrase "ECON 227" plus a description of your message will likely result in a faster reply than a blank or generic subject.

My office is room 208 PAC. I will be available for questions during office hours. If the door is open you should feel free to drop in, but understand that sometimes we may need to schedule a later appointment. If the door is closed, I am either not in or not available to meet with students.

Course Schedule

Below is a list of topics to be covered in the course, and approximate dates for the material. In the readings column: numbers with no letters mean chapters in our textbook; all other readings are available on the course moodle. The midterm exams will be given during class. Problem sets and solutions will be available on-line. Problem sets are due by 1 pm on Wednesdays except as indicated (PS 8).

L#	Date	Topic	Readings	Assignment Due
1	Tues. Sept. 8	Overview of course	1	
2	Thurs. Sept. 10	Financial statements	2	
3	Tues. Sept. 15	Financial statements	2	**PS 1 (9/16)**
	Wed. Sept. 16, 4:30-6:30, or 7-9: Intro to ValueLine, Research Insight & Excel			
4	Thurs. Sept. 17	Financial statement analysis	3	
5	Tues. Sept. 22	Financial statement analysis	3	**PS 2 (9/23)**
6	Thurs. Sept. 24	Financial statement analysis; economic analysis	3, BKM 17	
7	Tues. Sept. 29	Economic analysis	BKM 17	
	Wed. Sept. 30, 6-8 pm: Review session with professor in PAC 107; TBD: TA drop-in hours			
	Thurs. Oct. 1	**Midterm Exam 1** (through BKM 17)		
8	Tues. Oct. 6	Discounted cash flow valuation	4	**PS 3 (10/7)**
9	Thurs. Oct. 8	Stock valuation	4, 6[*]	
10	Tues. Oct. 13	Stock valuation	6[*]	**PS 4 (10/14)**
	No class on Thurs. Oct. 15 – Professor at Financial Management Association Conference			
11	Tues. Oct. 20	Statistics; Risk & return	10	
12	Thurs. Oct. 22	Risk & return; CAPM	10, 11	**PS 5 (10/21)**
13	Thurs. Oct. 29	CAPM	11	
14	Tues. Nov. 3	CAPM; Cost of capital	11, 12	**PS 6 (11/4)**
15	Thurs. Nov. 5	Cost of capital; market efficiency	12, 13	
16	Tues. Nov. 10	Market efficiency	13	
	Wed. Nov. 11, 6-8pm: Review session with professor in PAC 107; TBD: TA drop-in hours			
	Thurs. Nov. 12	**Midterm Exam 2** (through 13)		
17	Tues. Nov. 17	Debt	5	**PS 7 (11/18)**
18	Thurs. Nov. 19	Debt	5	
19	Tues. Nov. 24	Portfolio theory	Campbell, 14	**PS 8 (11/24, 4pm)**
20	Tues. Dec. 1	Portfolio theory; Capital structure	14, 15	
21	Tues. Dec. 3	Capital structure	15	**PS 9 (12/4)[**]**
22	Tues. Dec. 8	Dividends	16	
23	Thurs. Dec. 10	Dividends	16	
	Fri. Dec. 11	**Case study due** by 5pm		
	Thurs., Dec. 17, TBD: Review session with professor in TBD room; TBD: TA drop-in hours			
	Fri. Dec. 18	**Midterm Exam 3**; maximum time allowed will be 100 minutes even though the registrar-assigned exam slot is 3 hours long		

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[*] Skim 6.5 and skip 6.6
[**] TA session is 7-9pm on Wed 12/2 (not the usual Sunday night!)