

Spring 2019

**FINA 333**  
**FINANCE AND MARKETS**  
*(This is a 100% Online Class)*

Date: 12/28/2018

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Class Web Site: <http://blackboard.sc.edu>

Mode of Delivery

As noted in the title, **this is a 100% online class**. Thus, you can go at your own pace as long as your own pace is at least as fast as what I lay out in the last part of this syllabus. All of the material will be posted on the Blackboard website by January 5th. Thus, if you want to, you can get a head start. Moreover, you can work as far ahead as you want to.

Difficulty

For many of you this will be a difficult class. Indeed, many students say that this is the most difficult online class that they have taken, so be forewarned. This is exactly the same material that I would teach in a live class. Indeed, I probably cover a little bit more than what I would cover in a live class as I never run out of virtual time. It is imperative that you be self-disciplined and keep pace. If not, your grade can really suffer and this will have been a big waste of money for you.

Objective

When you buy a car, what determines your monthly payment? When your firm explains its 401K retirement program, what are your investment options and how do you decide between them? When you worry about saving for retirement, how much will you likely need to save? Gone are the days when a college graduate went to work for a major manufacturer, stayed for their entire career, and knew that the company would see after all of their retirement and health care needs. Instead, in today's world, individuals are increasingly responsible for their own financial well-being. Thus, well-educated individuals have to understand how financial markets work.

Finance and Markets provides an in-depth introduction to the world of finance. You will learn how individuals interact with financial markets. Because most of you will end up working for private companies, you will also learn how companies interact with financial markets. Primary topics include:

- How do stock and bond markets work from the perspectives of both providers of capital (investors) and users of capital (firms, governments, etc.)?
- Time Value of Money: how do we calculate the value today of cash flows in the future?
- How do we determine prices for standard financial claims (stocks, bonds) issued by firms and bought by investors?
- Why is diversification of investments so important and how does diversification generate an equilibrium relationship between risk and expected return for investments like equity?
- How do firms decide which projects to pursue?
- Introduction to "exotic" financial products such as options, swaps and futures.
- Basic tools for optimizing your personal financial health.

We will emphasize the underlying principles and theories that pertain to each of these areas while at the same time presenting the context in which they operate. What we observe in the "real" world of finance results from the interaction of underlying principles with the current financial environment. The financial environment is bound to change, however, basic principles will remain the same. Understanding these basic principles will prepare you to operate in the financial environment of tomorrow, whatever tomorrow brings! Our objective, therefore, will be to understand *why* things happen in finance as opposed to memorizing historical facts.

Prerequisites: ACCT 222, or an equivalent class in financial accounting. I am not going to exclude you from the class if you have not taken accounting yet, but you are better off if you have taken accounting.

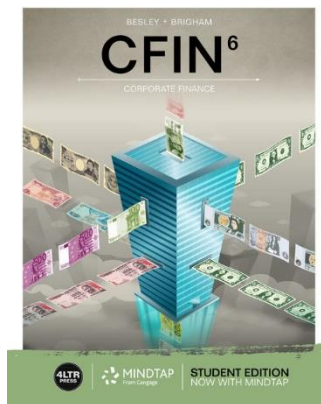
### Recorded Lectures:

This is an online class. Instead of attending traditional classroom lectures, you will view lecture modules posted on Blackboard. Each chapter will have several recorded lecture modules that vary in length from about 10 minutes to about 20 minutes. Perhaps it is an antiquated notion, but I think that listening to these lectures is pretty darn important! After all, I am the one who writes the exam questions so you probably want to have some idea of what I think is the most important material.

Note that there are bonus questions associated with each recorded lecture block. These are located at the bottom of every Recorded Lectures folder. These questions used to be in the actual recorded lecture but Microsoft disabled this functionality when they updated their recording software and these embedded questions no longer work. Thus, I programmed the bonus questions as standalone quizzes in Blackboard. These bonus questions are due by 11 pm on the relevant Sundays. They count for as much as a 5% boost to your grade so they are important. You get three tries on each question. These are pretty close to free points!

### Text

The textbook for the class is CFIN 6 by Besley and Brigham



The ISBN for a hardcopy text with a bundled access card to the online homework system and all of the other electronic bells and whistles is 9781337407342. If you only want electronic access to the textbook the ISBN is 9781337915830. Note, if you click any Cengage link in one of our Lessons folders this will spawn a sign-in page. One of the options is to purchase electronic access to the book right then and there. Do not set up an account via the Cengage website. All of our material is accessed via Blackboard.

We have free access to the online material until the third week of class.

The list price of the textbook is \$75. This provides a paper cover text (that is one reason why it is so cheap) and online access to the text via your code. A used textbook is only good if the code that comes along with it has never been used. This is the other reason that the text is cheap as the one-time aspect of the code nullifies the used textbook market. You can also purchase just the code and get electronic access to the text. I think that this costs \$55.

There will be texts in the bookstore. However, the bookstore typically orders only enough texts for about 30% of enrollment as so many students purchase from other sources. Here is the link directly to the USC Book Store if you want to order from them:

<https://sc.bncollege.com/webapp/wcs/stores/servlet/TBWizardView?catalogId=10001&langId=-1&storeId=10052>

Your other alternatives are the usual suspects like Amazon or directly from the publisher Cengage.

Note that you can also get a Cengage subscription that gives you access to all your Cengage access codes and online textbooks for \$119.99 per term, \$179.99 per year, or \$239.99 for 2 years. No matter how many Cengage products you use, they are included in Cengage Unlimited and the price stays the same. You can purchase access to Cengage Unlimited in the bookstore, or at [www.cengage.com](http://www.cengage.com).

For additional support, please visit:

Getting started materials: [www.cengage.com/start-strong](http://www.cengage.com/start-strong)

Training site for Cengage platforms: [www.cengage.com/training](http://www.cengage.com/training)

FAQs: <https://www.cengage.com/faq>

Cengage Customer Support: [cengage.com/support](http://cengage.com/support) or 1-800-354-9706

### Calculator

A financial calculator or a financial calculator app for a smartphone or tablet is **strongly** recommended. It should have the ability to do Time Value of Money (TVM) problems. The textbook demonstrates the use of the Texas Instruments BAII plus (about \$29). Another alternative is the Hewlett Packard 17BII (about \$89). Finally, the TI-83 graphing calculator has a finance module that will meet all of your needs.

### Homework

Homework is done via the Publisher's online Aplia system. Each chapter has homework questions that are due on Sunday evenings. In week 4 for example, we will cover the Time Value of Money. This is chapter 4 in the text. The associated problem set is due by 11 pm on Sunday September 16.

You have three chances at each question and the system keeps the best result from your three tries. Note that you can only submit the assignment to the grade book once so make sure that you have answered each question to the best of your ability before you submit the assignment. Because you get the best of three, you can use attempts two and three on a question to get extra practice at no cost even if your first attempt was solid.

Many of the problems are pretty difficult. This is why homework is such a large percentage of your grade. Do not make the mistake of opening the homework an hour before it is due and think that you are going to do well. That is highly unlikely. Probably the best aspect of the home work system is that it gives you a detailed answer after you have hit the grade-it-now for a question. Thus, there is a definite "learning by doing" aspect to the homework system.

At the end of the semester I will sum your total homework points and divide by the total potential points. Note that some home works are longer and some are shorter. The longer ones count more heavily. Cumulatively, home works count for 35% of your grade so they are very important.

Each individual must submit their own entry, however, I encourage you to collaborate and work in groups. No late home work is accepted, **EVER!**

### Packback

This semester I am continuing an experiment that I started in Spring 2018 which is a moderated discussion board hosted by a company called Packback. Each week, starting with week 1b, you are responsible for posting one question related to course material and answering two questions posted by other students. Half of your Packback participation grade is earned by simply satisfying the 1 + 2 weekly requirement. The other half of your participation grade is based on the quality of your participation. Packback has an algorithm and live moderators that grade the depth and quality of your participation. It is important to note that the way that I use curiosity points to assess the quality component is maximized by making quality

posts that address an issue in some depth. I don't want to encourage generating a high curiosity points total by "spamming" with a lot of posts of minimal quality.

A more detailed description of how Packback works is available on Blackboard in the Course Information folder. For a brief introduction to Packback watch this video: [vimeo.com/packback/Welcome-to-Packback-Questions](https://vimeo.com/packback/Welcome-to-Packback-Questions)

Why am I doing this? In a live course, it is possible to get students to "connect the dots" and progress beyond simply memorizing material via Socratic questioning and in-class discussion. In an online class, that ability is significantly reduced and it troubles me. The final straw was a Rate My Professor post where a student stated "I didn't put much effort in this class honestly and didn't learn much because I found all the test answers on Chegg." Unfortunately, that person did not even get to the simple memorizing stage! I am hopeful that you will not succumb to the same fate. Weekly Packback participation counts for 10% of your grade.

A Packback subscription for the semester costs \$25 (sorry). For those who are curious, Packback was started by students at Illinois State and was a successful participant on the show Shark Tank (their most prominent investor is Mark Cuban). Before you start posting, be sure to read the [Community Guidelines](#) found in the tutorial on Packback. If your post doesn't follow the Packback Community Guidelines, there is a chance it will be removed and you won't receive points for that post.

The same Sunday 11:00 PM deadline applies for Packback submissions each week. I will highlight discussions from Packback for the previous week, encouraging feedback and recognizing top students.

To start posting on Packback:

1. Navigate to <https://Packback.co/questions> and click "Register as a new student".  
Note: If you already have an account on Packback you can login with your credentials.
2. Make sure to register with your SCHOOL email address and real first name and last name. Do me a really big favor and put your first name in the field for first name and last name in the field for last name. This makes my manual entry of information into Blackboard at the end of the semester much easier.
3. Enter our class community's access code into the "Join a new Community" module on your dashboard. Our code is : 62c0dfb2-59d7-49e7-9b49-be7c2dc5af59
4. Follow the instructions on your screen to finish your registration.

### Project

In week 8 there is a retirement planning project that is separate from the regular home works. The end of week 8 is the start of Spring Break so plan accordingly. Details for this project are posted in Blackboard in the Assignments section. The project counts for 10% of your grade.

### Exams

There will be two midterm exams and a comprehensive final. These exams will be online. They are in the Tests Folder on Blackboard. For each exam, I will add a set number of points to every score so that the median grade is an 82% (curved scores above 100% will be capped at 100%).

### Grading

Exam I: 12.5%, Exam II: 12.5%, Final: 20%, Homework 35%, Retirement Planning Project 10%, Packback Participation 10%. The bonus questions mentioned earlier collectively add up to 5% to your grade. I don't do make-up exams. If you miss Exam I or II for whatever reason, I will add the weight for that exam to the final. Note that once you take an exam, you can't come back to me and give a long and drawn out story for why your performance was adversely affected by some event. If you do poorly on an exam, suck it up, study harder, and do better on the next one.

To calculate final grades I will take a weighted average of exam, homework, project and Packback grades and assign letter grades according to the following scale:

$$F < 60 \leq D < 65 \leq C < 77 \leq C+ < 79.5 \leq B < 87 \leq B+ < 89.5 \leq A.$$

(Note that  $< 89.5$  means that 89.49999 is not an A and that  $< 87$  means that 86.99999 is not a B+. When the university allows us to assign minus grades I will reconsider this policy.)

### Learning Objectives:

Each student will be able to:

- Explain the distinction between primary and secondary markets.
- Understand how secondary markets like the NYSE and NASDAQ stock exchanges support the primary markets where entities like public corporations actually raise capital.
- Describe the basic characteristics of stocks and bonds including how they are issued and how they are traded.
- Explain how financial institutions like banks, insurance companies and pension funds intermediate between suppliers and users of capital.
- Calculate the present value and future value of a lump sum, annuity, perpetuity, and growing perpetuity.
- Calculate important Time Value of Money values such as implied interest rates, annualized interest rates, payment schedules, etc.
- Value a basic fixed-income security like a Treasury Bond using Time Value of Money principals.
- Value a share of stock using the Dividend Discount Model and using comparison firm ratios like the Price/Earnings Ratio.
- Describe the importance of diversification from both an intuitive and a statistical perspective.
- Understand the distinction between systematic and non-systematic risk.
- Explain how the restrictive assumptions of the Capital Asset Pricing Model lead to an equilibrium relationship between relative exposure to systematic risk and the expected return of a risky security like corporate equity.
- Calculate a firm's cost of capital.
- Estimate the free cash flows of an investment project using basic accounting information.
- Calculate a project's Net Present Value and Internal Rate of Return.
- Understand how basic derivative securities like Futures, Options, and Swaps operate.
- Understand how basic derivative securities are used to manage risk.
- Write a feasible plan for saving and investing for life's major events.

### Academic Honesty

#### **University of South Carolina Honor Code:**

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline.

The Honor Code is intended to prohibit all forms of academic dishonesty and should be interpreted broadly to carry out that purpose. The following examples illustrate conduct that violates this Honor Code, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code:

1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.

2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.
3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.
4. Use of another person's work or ideas without proper acknowledgment of source.
5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).
6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.
7. Conduct intended to interfere with an instructor's ability to evaluate accurately a student's competency or performance in an academic program.

Whenever a student is uncertain as to whether conduct would violate this Honor Code, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor of record prior to engaging in such conduct.

For more information about academic integrity issues, go to the following website:

<http://www.sc.edu/academicintegrity/>

### **Undergraduate Code of Conduct**

The Darla Moore School of Business is recognized globally for educating students who are prepared to become responsible business and civic leaders. An effective learning environment where students and faculty value integrity, professionalism and diligence is foundational to this mission. Consistent with these values, the Student Leadership Council and the faculty of the Darla Moore School of Business expect students to:

- spend a minimum of two hours outside of class studying for each hour of classroom time;
- exhibit classroom behavior that is respectful to faculty and fellow students;
- refrain from the use of phones and other electronic equipment during class, unless permitted by the instructor;
- arrive at class on time, actively participate in class, and not leave class early;
- keep up with assigned readings and complete assignments on time;
- contribute fully to team assignments;
- respect the university's staff and be responsible stewards of its facilities; and
- abide by the University of South Carolina Honor Code Approved by the Undergraduate Student Leadership Council and the faculty of the Darla Moore School of Business

### **Schedule**

Week 1: *Mon Jan 14 – Sun Jan 20*– Introduction to Finance.

- Introduction Recorded Lectures
- Text Chapters 1 & 3 (we have free access this week!)
- Hmwks for text chapters 1 & 3 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 2: *Mon Jan 21 – Sun Jan 27*: Financial Statement Analysis (*Jan 22 is drop date*)

- Financial Statement and Financial Statement Analysis Recorded Lectures
- Text Chapter 2 (we have free access this week!)
- Hmwk for text chapter 2 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 3: *Mon Jan 28 – Sun Feb 3*: Time Value of Money

- Time Value of Money Recorded Lectures
- Text Chapter 4
- Hmwk for text chapter 4 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 4: *Mon Feb 4 – Sun Feb 10*: Interest Rates

- Interest Rates and the Yield Curve Recorded Lectures
- Text Chapter 5
- Hmwk for text chapter 5 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 5: *Mon Feb 11 – Sun Feb 17*: Bonds and Bond Valuation

- **Exam 1 (on Blackboard) due by 11 pm Wednesday Feb 13. Covers chapters 1-5**
- Bonds and Bond Valuation Recorded Lectures
- Text Chapter 6
- Hmwk for text chapter 6 due by 11 pm Sunday.
- Packback participation by 11 pm Sun day.

Week 6: *Mon Feb 18 – Sun Feb 24*: Equity Valuation and Payout Policy

- Equity and Payout Policy Recorded Lectures
- Text Chapters 7 & 13
- Hmws for Chapters 7 & 13 due by 11 pm.
- Packback participation by 11 pm Sunday

Week 7: *Mon Feb 25 – Sun Mar 3* : Risk and Return

- Risk and Return Recorded Lectures
- Text Chapter 8
- Hmwk for text chapter 8 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 8: *Mon Mar 4 – Sun Mar 10*: Practical Financial Advice

- Practical Financial Advice Recorded Lectures
- Reading on Blackboard
- Retirement Planning Project (on Blackboard) due by 11 pm Sunday. I deduct 10% for every 24 hour period that the project is late. 11:01 pm on Sunday counts as one period late.
- Packback participation by 11 pm Sunday.

Week 9: *Mon Mar 11 – Sun Mar 17*

- SPRING BREAK! (be safe).

Week 10: *Mon Mar 18 – Sun Mar 24*

- **Exam 2 (on Blackboard) due by 11 pm Sunday Mar 24. Covers chapters 6-8, 13, Practical Financial Advice.** (I did not put this on Wednesday because you might still be recovering from Spring Break)

Week 11: *Mon Mar 25 – Sun Mar 31*: Capital Budgeting Techniques

- Spring Break)
- Capital Budgeting Techniques Recorded Lectures
- Text Chapter 9
- Hmwk for text chapters 9 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 12: *Mon Apr 1 – Sun Apr 7*: Capital Budgeting Cash Flows

- Capital Budgeting Cash Flows Recorded Lectures
- Text Chapter 10

- Hmwk for text chapter 10 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 13: *Mon Apr 8 – Sun Apr 14*: Cost of Capital

- Cost of Capital Recorded Lectures
- Text Chapter 11
- Hmwk for text chapter 11 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 14: *Mon Apr 15 – Sun Apr 21* : Capital Structure

- Capital Structure Recorded Lectures
- Text Chapter 12
- Hmwk for text chapter 12 due by 11 pm Sunday.
- Packback participation by 11 pm Sunday.

Week 15: *Mon Apr 22 – Sun Apr 27*: Derivative Securities

- Recorded Lectures on Derivative Securities
- Readings provided on Blackboard
- No hmwk for Derivative Securities.
- Packback participation by 11 pm Friday.

**Final Exam (on Blackboard) due by 11 pm Tuesday May 7<sup>th</sup>.**