

WP 2007 Section 17
FINANCE 642 The Financial Environment – Spring 2007
Mondays 5/21, 6/4, & 6/11 (6:30 pm – 10 pm) in SB 302
Saturdays 5/26 (8 am – 12:30 pm), 6/2 (8 am – 5 pm), & 6/9 (8 am – 12:30 pm) in SB 302

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Office: Jenkins 517-A
Office hours (beginning 5/21): Mondays 4-6:15
Appointments outside of scheduled hours are also available.

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******* EMAIL IS BY FAR THE BEST WAY TO CONTACT ME! *******

Objectives: This course is designed to provide an overview of investments with an emphasis on the financial tools and techniques used by investors and firms to manage risk. The course builds in its prerequisite, FIN 642, to broaden the student's exposure to the modern financial environment faced by investors and firms. Specific objectives are for students to:

- learn about today's global nature of securities markets,
- become familiar with the foreign exchange environment basic foreign exchange risk management tools,
- gain a basic understanding of derivatives such as options and futures,
- learn about issues affecting security trading,
- gain a basic understanding of the term structure of interest rates,
- explore the bond markets and various bond features,
- understand interest rate risk and basic ways in which it is managed,
- learn about the intermediary services investment banks provide to firms and capital markets, and
- become familiar with management of the firm's working capital.

Calculator: It is *assumed* that the student has mastered the use of a financial calculator to solve for present values and futures values of lump sums or annuities, to solve for implied interest rates, and perform other basic calculations covered in FIN 641. Occasionally we may use the financial calculator in class so please bring it with you.

Texts: There are two texts for this course, the first being that used in FIN 641.

1. *Corporate Financial Management*, 3rd edition, by Emery, Finnerty, and Stowe, Prentice Hall.
2. *Investments*, 7th edition, by Bodie, Kane, and Marcus, Irwin/McGraw-Hill

The *Investments* text is considered supplemental and is not required. See the memo that I posted on the class web page (a copy of it is attached at the end of this syllabus).

Other materials: Class notes will be distributed in class but they will also be available from the course documents section at the course's website on blackboard (www.courses.miami.edu). These notes are incomplete—we will fill in the missing parts during class.

Attendance: Attendance is a crucial part of the learning process in this course. Attendance is taken for each of the first six sessions (6/2 counts as two sessions, morning and afternoon, and the seventh session on 6/11 is used for an exam only and hence attendance is not taken on 6/11). The Finance Department policy requires attending a minimum of 80% of in-class lecture time in order to complete the class and receive a passing grade. **I have been asked to enforce this rule for FIN 642, and note that missing two of the first six lecture days violates the 80% rule.** If you anticipate missing two lecture sessions it is your

responsibility to contact me immediately so we can discuss a resolution, usually which involves having you come in outside of normal class time to make up the time.

Participation: Class participation is 5% of your grade. You begin the class with full credit for class participation but can lose points due to a lack of responsiveness or attentiveness in class, for repeatedly arriving late or leaving early, not returning from breaks on time, etc.

Grading & Exams: There are three exams at the *beginning of class* on Saturday 6/2 (exam 1), Saturday 6/9 (exam 2), and Monday 6/11 (exam 3). Coverage will be announced at the end of the prior class (and will also become posted on the class web page). All students will have three exam scores, where a 0% is the score given on any missed exam. There are two possible grade calculations:

Grade calculation 1: 5% participation, 50% highest exam score, 45% second highest exam

Grade calculation 2: 5% participation, 50% highest exam score, 45% exam 3 score

You qualify for grade calculation #1 by either (a) attending class from start to finish (at 12:30 p.m.) on Saturday 6/9, or (b) taking exam 3 and scoring at least 75% on it. If you do not qualify for calculation #1, your grade will be determined by calculation #2. Of course, you must also meet the 80% attendance rule in order to pass the class, as noted earlier. Note the end result here...that if you meet overall attendance requirements and also attend from the start of class through 12:30 on 6/9, and if you are happy with your grade based on the first two exams, then you need not take exam 3 (or attend at all on 6/11 since that night is only used to administer an exam).

There are several important points regarding grading and exams:

1. **Under no circumstances** will there be any make-up exams. A missed exam counts as a score of 0%. If you anticipate missing an exam, *make sure you qualify for grade calculation 1 above!*
2. Exams are closed notes and closed book. A financial calculator is allowed. You will be allowed to bring one 8 ½ x 11 sheet of paper (both sides) with you to the exam – as will discuss in class, only formulas are allowed on this sheet (no notes or example problems).
3. The flexible weighting scheme for grades is meant to help you do better in the course and replaces the purpose of extra credit assignments. There will be no opportunities to earn extra credit.
4. Academic dishonesty will result in a grade of F.

Grades will be assigned according to the following minimum scale (i.e., you can do no worse than the grades you see below for a given score in the course). Scores are not rounded up (i.e., in the scale below a 91.8% in the course is an A-, not an A).

92.0-100%: A	75.0-84%: B
89.0-91%: A-	70.0-74%: B-
85.0-88%: B+	< 70%: C+, C, C-, or F

Problem labs: We will have optional lab sessions to work problems – these will take place Thursday evenings (5/31 and 6/7) in room SB 308 from 7-9 and Sunday afternoon 6/10 (time and location TBA). These lab sessions are not a formal part of the class and attendance is optional. The sessions are for those wanting additional help or a good hands-on problem solving opportunity before each exam.

Homework: Homework is not collected but is *extremely important* if you wish to do well in this course (as is a good understanding of the class notes). See the homework packet distributed in class for the assigned problems and their solutions.

Topics

The notes are self-contained but for those of you wishing to have supplemental material to read, I will list suggested supplemental reading under each topic (EFS = *Corporate Financial Management* by Emery, Finnerty, and Stowe, and BKM = *Investments* by Bodie, Kane, and Marcus).

1. Introduction to global securities markets & foreign exchange
EFS: Ch 27 sections 27.1 – 27.2, 27.7
BKM: Ch 1 section 1.7, and Ch 2 (the paragraphs on Eurodollars and the LIBOR market on pages 28-30, the International Bonds paragraph on pg 34, and Ch 25 sections 25.1-25.2.
2. Forwards and futures
BKM Ch 20, EFS section 13.6
3. Options & real options
BKM Ch 20, EFS sections 12.1-12.5 and 13.1
4. Security trading & capital market efficiency
BKM Ch 3 sections 3.2-3.8, Chs 11-12, EFS chapter 15
5. Fixed income securities
BKM Ch 14
6. Term structure of interest rates & managing fixed income portfolios
BKM sections 15.1-15.3, and sections 16.1-16.2
7. Investment banking and security issuance
EFS chapters 16 and 19, BKM section 3.1
- 8 Working capital management
EFS chapter 22, sections 23.1-23.2

Finance Department Policies: Those important for this class include:

1. 80% Rule: Students must attend at least 80% of the class sessions to complete and pass the course. (Arriving long after class begins or leaving long before class ends will be counted as partial absence). **I have been asked to enforce this rule.**
2. Grades cannot be changed to meet eligibility or financial needs.
3. An incomplete grade will only be given for valid non-academic reasons. An incomplete cannot be given to allow a student to improve his or her grade in the course or retake the course. The student must have completed 50% of the work and must have a passing grade to qualify for consideration for an incomplete grade.

My background: You may find information about background at <http://moya.bus.miami.edu/~tburch> where you can also find examples of my research. In addition to the items mentioned there, I have consulted for various entities and currently serve on the board of a mutual fund family. My wife Saily is an estate planning attorney (www.gb-law.com) and we have two wonderful children, a 7-year old boy and a 4-year old girl.

Announcement made on the course web page on May 11, 2007

I'll be seeing you in a little less than a month for FIN 642 and I thought I'd go ahead and make sure you are informed about the texts. One text we use in the course is one you already have: *Corporate Financial Management* (second edition) by Emery, Finnerty, and Stowe (your current FIN 641 text). There is also a supplemental text: *Investments* (sixth edition) by Bodie, Kane, and Marcus (Publisher = McGraw-Hill/Irwin, and ISBN = 0-07-353061-1). Do you need the *Investments* text? Read on...

In FIN 642, the course is around 2/3 to 3/4 investments topics. However, the notes I provide you on the investments portions of the course are self-contained, and I provide you with problems (and answers) for those topics as well. Furthermore, although the *Investments* text is excellent and dominates the top MBA programs for elective courses in investments, it goes deeper into the topics than we have time for in FIN 642 and it is more advanced reading than the Emery text.

I would only recommend the *Investments* text to two types of students in FIN 642. First, if you are the type that only feels at ease when you have textbook readings at your disposal and you can't survive on the very complete notes that I'll provide you, then you may consider buying the *Investments* text. Second, those of you who want a good investments text to keep for future reference may also wish to consider purchasing that particular text. Those of you not falling into one of those two categories will find the *Investment* text a needless expense.

See you in a few weeks and feel free to email me at tburch@miami.edu should you have any questions in the meantime!

Professor Burch