

BF 4200: Applications in Finance

Spring 2016, Susan Clark
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Text/Reading Materials (*Required*):

Bodie, Kane, and Marcus. **Essentials of Investments**, 9th ed. McGraw-Hill.
ISBN: 978-0-07-803469-5

There is also a student value edition of the 8th ed. of the text: ISBN: 0077702638

Berk, DeMarzo, & Harford. Fundamentals of Corporate Finance, 3rd ed. Pearson. (This is the same text used for Bus-Fin 3220)

Coursework/Grading: (Total points = 480)

- Quizzes: There will be nine quizzes, each worth 10 points. You may drop your lowest quiz score. The quizzes can be found under the Quizzes tab in Carmen. PLEASE NOTE the due date for each quiz. If you miss the deadline, only the saved answers that are correct will be counted (80 points)
- Exams: There will be three exams and one final each worth 100 points.

Quizzes:

The quizzes can be found under the Quizzes tab in Carmen. You will have 240 minutes (4 hours) to complete each quiz. Once you open a quiz, the clock starts. If you close it before you have completed all the questions, only the correct saved answers will count. Also, please note the start and end date for each quiz and give yourself enough time to complete the work. Each quiz is worth 10 points. You may drop your lowest quiz score.

Course Goals

Upon successful completion of this course, the student will

- Explain the different investment vehicles available in financial markets
- Understand features of a corporation's financial situation and how it impacts the decisions of a corporation
- Explain how security markets work
- Explain the risk/return relationship in the context of efficient portfolios, CAPM
- Identify characteristics of efficient markets and describe anomalies that contradict EMH
- Determine the value of specific types of investments including stocks and bonds
- Understand the relationship between debt financing and capital structure

Module Outcomes

Introduction Module

- Define an investment
- Distinguish between real assets and financial assets
- Identify major participants in financial markets

Asset Classes & Financial Instruments Module

- Identify types of financial markets and recent trends in those markets
- Distinguish among the major assets that trade in money markets and in capital markets
- Describe the construction of stock market indexes

Securities Markets Module

- Describe the role of investment bankers in primary issues
- Identify the various security markets
- Compare trading practices in stock exchanges with those in dealer markets
- Describe the role of brokers, dealers and market makers in security markets
- Compare the mechanics and investment implications of buying on margin and short-selling

Risk/Return Capital Asset Pricing Model (CAPM) Module

- Determine the expected return and risk of portfolios that are constructed by combining risky assets with risk-free investments in Treasury bills
- Use data on the past performance of stocks and bonds to characterize the risk and return features of these investments
- Show how covariance and correlation affect the power of diversification to reduce portfolio risk
- Construct efficient portfolios
- Construct and use the security market line to determine the cost of equity capital

Efficient Markets Module

- Demonstrate why security price changes should be essentially unpredictable in an efficient market
- Cite evidence that supports and contradicts the efficient market hypothesis
- Provide interpretations of various stock market “anomalies”

Bond Module

- Explain the general terms of a bond contract
- Compute a bond's price given its yield to maturity and compute its yield to maturity given its price
- Describe call, convertibility and sinking fund provisions
- Identify the determinants of bond safety and rating and how credit risk is reflected in bond yields

Equity Module

- Calculate the intrinsic value of a firm using either a constant growth or multistage dividend discount model
- Calculate the intrinsic value of a stock using a dividend discount model in conjunction with a price/earnings ratio
- Assess the growth prospects of a firm from its P/E ratio

Cost of Capital Module

- Discuss the types of debt financing that a company can use
- Differentiate between using debt financing and equity financing and how these impact the capital structure of a firm
- Calculate the Weighted Average Cost of Capital using inputs developed based upon assumptions

Debt Financing Module

- Identify different types of debt financing available to a firm
- Understand limits within bond contracts that protect the interests of bondholders
- Describe the various options available to firms for the early repayment of debt

Capital Structure Module

- Examine how capital structures vary across industries and companies
- Understand why investment decisions, rather than financing decisions, fundamentally determine the value and cost of capital of a firm
- Describe how leverage increases the risk of a firm's equity
- Demonstrate how debt can affect firm's value through taxes and bankruptcy costs
- Show how the optimal mix of debt and equity trades off the costs (including financial distress costs) and benefits (including the tax advantage) of debt

Standards of Integrity and Conduct:

Students are expected to be familiar with and abide by The Ohio State University's code of student conduct, available at http://studentaffairs.osu.edu/resource_csc.asp. In accordance with OSU Faculty Rule 3333-5-487, all instances of academic misconduct will be reported to the Committee on Academic Misconduct, which recommends appropriate sanctions to the Office of Academic Affairs.

Office of Disability Services (ODS)

Any student who feels s/he may need an accommodation based on the impact of a disability should contact me privately to discuss your specific needs. Please contact the Office for Disability Services at 614-292-3307 in room 150 Pomerene Hall to coordinate reasonable accommodations for students with documented disabilities.



Policy on Dropping Students

Fisher College of Business strongly enforces University attendance policies. As per University rule 3335-8-33, any student may be disenrolled from a course for failure to attend by the first Friday of the term, or by the 3rd instructional day of the term, or by the second class meeting, ***whichever occurs first.***

<http://trustees.osu.edu/rules/university-rules/rules8/ru8-33.html>

The stated schedule (shown below) and procedures in this course are subject to change in the event of extenuating circumstances. Continued enrollment in this course will indicate that the student has carefully read the syllabus and assumed responsibility for meeting course requirements.

Tentative Class Schedule – See Course Schedule under Syllabus in Content on Carmen website.