The Cameron School of Business at University of St. Thomas

1. Course Information

Course Title: Capital Budgeting

Course number: FINA-4340

Course Section: A

Credit. Hours: 3

Semester: Spring 2017

Room #: WEL 117

Days & hours: M, W 3:10 -4:25 p.m.

Perquisites: ECON 1331, 1332, MATH 1353, ACCT 1341

2. Instructor Information

Name: C. Joe Ueng, Ph.D., CFA

Office location: 225 Welder Hall

Office phone: 713-525-2114

Office hours: M: 1:00 -3:10, 4:25-5:30
W: 1:00 -3:10, 4:25-5:30
TH: 11:00 - 11:30 p.m.
or by appointment (I am always happy to meet with you at a mutually convenient prearranged time if you cannot come by during regular office hours)

E-mail: ueng@stthom.edu

Fax number: 713-525-2114
COURSE CATALOG DESCRIPTION

This course provides an exposure to the decision-making process involving capital expenditures and fixed asset replacement problems. The importance and usefulness of capital budgeting techniques are shown by applying them in some variety contexts. Main topics include net present value, internal rate of return and other techniques, alone with approaches for the incorporation of risk into the capital budgeting process. Other topics include long-term investment criteria, cost of capital, financial structure, and lease versus purchase decisions.

4. BBA Learning Goals

The Bachelors of Business Administration has five goals.

When students complete the BBA degree at the University of St. Thomas:

1. They will communicate clearly, effectively and logically in a business situation:
   - Objective 1: Graduates can demonstrate mastery of appropriate communication technology.
   - Objective 2: Graduates can produce written materials that flow logically and are grammatically correct.
   - Objective 3: Graduates can deliver a compelling oral presentation grounded in relevant information and facts.

2. They will be adept at critical thinking and be able to demonstrate creative decision making skills.
   - Objective 1: Graduates can identify the main problem and key surrounding assumptions.
   - Objective 2: Graduates can evaluate the logic, validity and relevance of data.
   - Objective 3: Graduates can solve challenging problems and discuss conclusions, implications.

3. They will be able to work effectively in teams towards achievement of goals.
   - Objective 1: When working in a group, graduates can demonstrate collaborative behaviors in the achievement of group goals
   - Objective 2: When working in a group, graduates can evidence accountability for the achievement of group goals
   - Objective 3: When working in a group, graduates can demonstrate a positive attitude towards the group and the other members of the group

4. They will be able to state moral standards/principles, recognize possible moral issues and bring their moral knowledge to bear in resolving these moral issues.
   - Objective 1: Graduates can state professional codes for ethical conduct as they apply to business situations.
   - Objective 2: Graduates can discern moral issues in a business case.
   - Objective 3: Graduates can bring moral principles to bear in resolving business issues.

5. They will demonstrate an understanding of fundamental business issues and processes.
Objective 1: When students complete the BBA, they can demonstrate their management specific skills and competencies in Accounting, Economics, Management, Quantitative methods, Finance, marketing, Legal and Social Environments, Information System and Global Issues

Program Learning Goals

The goal of the finance curriculum is to acquaint students with the facts of financial markets and financial instruments and to teach them to perform financial calculations and analysis. In addition, the finance curriculum, alone with their complementary business training, will enable students to attain professional workforce status in a financial environment. Specifically, students are expected to perform the following:

1. Effective and logical communication in a business situation.
2. Critical thinking and ability to demonstrate creative decision making skills.
3. Effective teams work towards achievement of goals.
4. Recognition of moral standards/principles and ability to resolve moral issues.
5. Understanding of fundamental business issues and processes

SPECIFIC COURSE LEARNING OBJECTIVES

Students are expected to:

1. Familiarize themselves with the nature of the corporation and of the general guiding principles underlying the process of capital budgeting decision. (address goal 2)
2. Learn the techniques and methods of capital budgeting analysis and develop the ability to use them as tools for problem solving. (address goal 2)
3. Learn to identify which techniques and methods are applicable to a given problem and how managers can use them individually or in combination as decision-making tools to undertake capital budgeting decisions. (address goal 2)
4. Develop the ability to communicate clearly—to describe in words what the techniques of capital budgeting contribute to decision making. (address goal 6)
5. Obtain an understanding of the functioning of financial markets and their role in capital budgeting decision-making. (address goal 2)
6. Broaden their knowledge beyond the excessively clear-cut concepts and problems of the textbook by approaching managerial decisions using the messier and less complete data typically encountered in practice by engaging in empirical studies of actual firms or engaging in case studies as assigned in the course. Whichever of these is assigned, it will involve written analysis and oral discussion. (address goal 6)
PROCEDURE:

Class time will be devoted to lecture, discussion, and analysis of assigned problems. Students should complete reading assignments before the scheduled class discussion of the topic. There are a set of assigned problems for some chapters. The answers to these questions should be handed in the class. You will want to make a copy of the assignment to use during the class discussion. The exams are highly related to the assigned problems. Consequently, your grades are largely determined by how well you understand those problems and the materials we discussed in class.

COURSE POLICIES

1. Reading assignments and homework assignments:
   You are responsible for all of the material discussed in class, assigned in the readings, and problems assigned for homework.

2. Make up exams
   Make up exams will not be permitted unless I am notified your absence on an exam before the exam date. Make up exams from excused absences will be scheduled at a time mutually agreeable to the instructor and the student.

3. You should prepare for ALL regularly scheduled classes prior to class meeting. Also, you are expected to arrive on time and stay in class until the class period ends. If you know in advance that you will need to leave early, please notify me before the class period begins.

4. Comments and questions are encouraged to share with the whole class. Private discussion or chatting with your peers are discouraged and will be viewed as destructive for the learning environment. Please respect the class by not doing so.

5. Attendance is expected and required. If you missed three or more classes, your course grade, at the instructor's discretion, will be reduced by one letter grade. If you missed more than six classes, at the instructor's discretion, the grade will automatically become an F.

6. The use of cell phone is discouraged during the class period. Unless for important reasons, please try not to use it.

7. If you have special concerns about this class and the class policy, I encourage you to come talk to me after class or during my office hours. This should be done in the first week of class to allow us time to work out a plan to fully address your concerns. After this time period, I assume that you agree to, and will abide by, the class policy.
GRADING AND EXAMS:

Your grades are determined by the following basis:

- First Exam: 20%
- Second Exam: 20%
- Final Exam: 30%
- Average Score on Assigned Problems and Quizzes: 10%
- Case Analysis: 10%
- Class Participation: 10%

**TOTAL:** 100%

Timely and accurate completion of the assigned reading and homework problems will be critical to your success on the exams. There will be two mid-term exams and one cumulative final exam. Grades will be assigned on a point basis. Students are encouraged to participate actively in class with regard to analysis and discussion of problems and cases. Your grade is determined by the following:

- **A** = 93 to 100;
- **A-** = 90 to 92;
- **B+** = 87 to 89;
- **B** = 84 to 86;
- **B-** = 80 to 83;
- **C+** = 77 to 79;
- **C** = 74 to 76;
- **C-** = 70 to 73;
- **D** = 60 to 69;
- **F** is below 60 points.

MEETING ASSIGNMENT DEADLINES:

All assignments must be turned in on the due date. The case is due one week before the last day of class. This rule avoids unfair treatment of the majority of students who make conscientious effort to get their assignments in on time.

CORRECTION OF GRADING ERRORS:

When a test or assignment is returned to the class, the grade book will remain open for one week from the date the exam. or assignment is returned to the student to correct any grading errors. After the one-week deadline has passed, the grade book is closed on that particular exam or assignment and no further changes can be made. Accordingly, each student should check over any graded work returned to him or her right away to see that it is graded correctly. Any questions about possible grading errors should be brought to the attention of the instructor within the week following the return of the assignment involved. Grading errors will be promptly corrected.

MAKE-UP EXAMS AND WORKS:

Make up exams and make-up assignments are permitted if the student’s absence on an exam date or on the due date for a written assignment is for a reason consistent with University policy, including illness or participation in approved University activities. However, the reason for an
absence on a date for a scheduled exam or on the due date for a written assignment must not only be consistent with University policy, but it must also be verifiable. This means that the student’s excuse must be in writing and include a phone number the instructor can use to call in an effort to verify that the excuse is valid. Make-up exams from excused absences will be scheduled at a time mutually agreeable to the instructor and the student. Make-up exams are not permitted for unexcused absences, in accordance with University regulations.

**Statement of Academic Integrity**

Ethical conduct is essential to a community of scholars and students searching for truth. Anything less than total commitment to honesty and honorable conduct undermines the efforts of the entire community. Academic integrity lies at the very heart of any institution of higher learning. In the Cameron School of Business, students and faculty are expected to commit to a code that exemplifies each individual's honor and integrity. Any conduct that violates this standard and betrays the respect of others is a matter of grave concern and, accordingly, is deemed unacceptable.

**Cameron School of Business: Mission Statement**

The Cameron School of Business will serve students of diverse backgrounds, providing them the necessary professional skills for a changing global economy, and instilling in them a deep appreciation for ethical behavior as the hallmark of a successful and fulfilling business career. The Cameron School will provide its students a timely and comprehensive business curriculum, with opportunities for specialized study in major business fields. The faculty will provide quality teaching, as this is the core of our mission. As an extension of our teaching mission, the faculty will engage in scholarly activity and service to the University, the profession, and the community.

**Academic Honesty** Ethical conduct is essential to a community of scholars and students searching for truth. Anything less than total commitment to honesty and honorable conduct undermines the efforts of the entire community. Academic integrity lies at the very heart of any institution of higher learning. In the Cameron School of Business, students and faculty are expected to commit to a code that exemplifies each individual's honor and integrity. Any conduct that violates this standard and betrays the respect of others is a matter of grave concern and, accordingly, is deemed unacceptable.

**Accommodations** The University of St. Thomas abides by the Americans with Disabilities Act and Section 504 of the Rehabilitation Act of 1973, which stipulates that no student shall be denied the benefits of an education "solely by reason of a handicap.” If you have a documented disability that may impact your performance in this class and for which you may require accommodations, you must be registered with and provide documentation of your disability to Counseling and Disability Services which is located on the second floor of Crooker Center. Contact Debby Jones or Rose Signorello at 713-525-6953 or 713-525-3162.

Students are encouraged to consult with tutors at the Learning and Writing Center when completing written assignments for this course. Based on the instructor’s assessment of the
student’s written work, the student may be required to work with the tutors at the Learning and Writing Center to improve the student’s writing skills.

## COURSE OUTLINE

<table>
<thead>
<tr>
<th>WEEK</th>
<th>TOPIC*</th>
<th>ASSIGNMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Introduction--An Overview of Capital Budgeting Long-term Financial Decisions</td>
<td>Ch. 1</td>
</tr>
<tr>
<td>2.</td>
<td>Market Imperfections &amp; Value Strategy matters</td>
<td>Ch. 2 TBA</td>
</tr>
<tr>
<td>3.</td>
<td>Measuring Wealth: Discounted Cash Flow Analysis</td>
<td>Ch. 3 TBA</td>
</tr>
<tr>
<td>4.</td>
<td>Value-driven Management</td>
<td>Ch. 4 TBA</td>
</tr>
<tr>
<td>5.</td>
<td>Net Present Value Analysis</td>
<td>Ch. 5 TBA</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Exam I</strong> Basic Measures of Capital Investment Desirability</td>
<td>Ch. 6 TBA</td>
</tr>
<tr>
<td>7.</td>
<td>Ranking Capital Investments</td>
<td>Ch. 7 TBA</td>
</tr>
<tr>
<td>8.</td>
<td>Spring Break</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Estimating Incremental Cash Flows Taxes and Capital Investments Analysis,</td>
<td>Ch. 8 Ch. 9 TBA</td>
</tr>
<tr>
<td>10.</td>
<td><strong>Exam II</strong> Inflation and Capital Investments Analysis</td>
<td>Ch. 10 TBA</td>
</tr>
<tr>
<td>11.</td>
<td>Introduction to Risk Analysis</td>
<td>Ch. 11 &amp; 12 TBA</td>
</tr>
<tr>
<td></td>
<td>Section</td>
<td>Chapters/Date</td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>12.</td>
<td>Single Investment Risk Analysis</td>
<td>Ch. 12 TBA</td>
</tr>
<tr>
<td>13.</td>
<td>Portfolio Theory, CAPM, and Company Risk Analysis</td>
<td>Ch. 13 &amp; 14 TBA</td>
</tr>
<tr>
<td>14.</td>
<td>Option Pricing Theory And Capital budgeting Decisions</td>
<td>Ch. 15 TBA</td>
</tr>
<tr>
<td>15.</td>
<td>Cost of Capital and Capital Budgeting Decisions</td>
<td>Ch. 16 TBA</td>
</tr>
<tr>
<td>16.</td>
<td><strong>Final Exam</strong></td>
<td></td>
</tr>
</tbody>
</table>