COURSE DESCRIPTION

This course develops your ability to use economic decision tools in a market environment. Making good economic decisions involves integrating behavioral, economic, accounting and political information into a qualitative and quantitative decision process. This valuation approach is essential for all market participants, including investors, governments, and non-profits.

COURSE CONCEPTS

A market is a structure within which individuals and institutions buy and sell goods and services. This is a simple concept. However, this concept has big implications for those making economic decisions. The following issues will be woven into this course:

- **Market values**: Choice and competition affect all decisions, even those that may appear strictly internal to the company or not to involve profit at all. Business managers must value projects from the viewpoint of those outside of the company (investors and customers) whose choice determines the company’s survival and profitability. Non-profits and governments must obtain resources from markets and use those assets to produce the most value for their stakeholders.
- **Cash flow**: Cash is truly king! Market decisions are based on expected future cash flow.
- **Time value of money**: A dollar received today is worth more than a dollar received in the future. Decision makers must use interest rates to compare investments made in the current period with cash inflows expected to be received at a future point in time.
- **Risk**: A bird in the hand is worth two birds in the bush. Decision makers (and, especially, individuals planning for retirement) face huge uncertainty, and must understand the difference between expected and realized returns!
- **Opportunity cost**: All projects must provide an acceptable rate of return. This return, often called the required rate of return, or the discount rate, is the opportunity cost. The opportunity cost is the basis for all decisions.

PREREQUISITES

Upper-division standing. UT Austin students interested in applying this course towards degree requirements are encouraged to contact their advisor prior to enrollment.

COURSE MATERIALS

The materials for this course (textbook, cases, readings, etc.) have been embedded electronically within the UT Canvas learning management system. The supporting text is *Essentials of Corporate Finance*, 9th Edition, by Ross, Westerfield, Jordan, McGraw Hill. This text will be accessed through Connect, an adaptive learning system provided by McGraw Hill. Before accessing the course, you must pay for your materials via the portal provided in
Upon completion of payment, you will be able to access all course content. No additional bookstore fees or payments are required.

A basic financial calculator, such as an HP 10BII+, is recommended.

The midterm and final exams must be taken in a proctored location, with arrangements to be made by the student. Exam proctoring fees are not included in the course fee.

**COURSE STRUCTURE**

The course is divided into seven parts, with each part containing two or three units. As this course diagram shows, these parts are interrelated.

The seven parts of our course take you from human decision making, through markets and the companies that compete in them, to the major decisions that managers must make. Each unit covers specific elements of the major concept.

**Part I: The Economy:** Economic activity – the production and consumption of goods and services – is an interaction among humans. With scarce resources, society must balance the competing issues of fairness and efficiency. How do profit-seeking businesses play a role in this process?

**Part II: The Business Firm:** Building on an understanding of human decision-making and the role that businesses play in economic activity, we examine how businesses are organized. We use accounting statements to visualize managerial decisions.
Part III: Economic Value: While useful, Part II uses accounting information, which looks only at past performance. Market prices are based exclusively on expectations about the future. Decision makers must thus develop a framework for estimating the future cash inflows and outflows resulting from their decisions and use economic decision rules – Net Present Value and Internal Rate of Return – to identify the best decisions.

Part IV: Valuing Financial Securities: Here we combine Parts II and III to better understand how companies, governments, and not-for-profit entities raise capital by issuing financial securities. The market values of these securities are determined by the investors’ view of future cash flows.

Part V: Valuing Non-financial Assets: Most organizations – businesses, non-profits, governments – must invest in long-term productive projects: plant, equipment, technology, major marketing campaigns, outsourcing, offshoring, onshoring, and more. Project evaluation involves the application of economic decision rules – NPV and IRR – to measure the cost-benefit tradeoff of a project. To do this we combine the insights of Parts II and III to develop a view of Free Cash Flow.

Part VI: Risk and the Cost of Capital: Throughout the course, we use interest rates to compare cash flows through time. This interest rate is the risk-adjusted opportunity cost, more commonly called the discount rate or cost of capital. In Part VI, we define risk and show how this discount rate is determined.

Part VII: The Global Environment: In Unit 14, we introduce investment management and explain how to select securities and combine them into investment portfolios. Unit 15 introduces important issues on international trade, the balance of payments, and foreign exchange rates.

ASSIGNMENTS

The course grade consists of 1,000 points based on four types of evaluations:

1. Three short essays totaling 120 points. While you may use course and other resources, you must do these exercises on your own without help from others.

2. Forty-Five LearnSmart Assignments, each worth between 5 and 10 points, totaling 95 points. These integrative, adaptive assignments combine study and practice and give you prompt feedback on your understanding of the material.

3. Thirteen Unit Quizzes, each worth between 30 and 50 points, totaling 485 points. The quizzes consist of verbal and quantitative multiple-choice questions.

4. Two exams. Life is not multiple choice. While the LearnSmart exercises and quizzes are excellent at developing your understanding of economic decision making, the exams provide a more flexible way of helping you further develop and integrate your skills. The exams consist of fill-in-the-blank, short answer, and quantitative problems. They are not encyclopedic, covering every element of our course, but rather sample your ability to apply your knowledge to financial decision problems.

- Exam 1: Units 1 through 9. 150 points. Exam 1 consolidates your ability to use time value to make decisions, and gives you practice in applying your skills to valuing non-financial assets.
- Exam 2: Units 10 through 15. 150 points. This second exam covers the important area of project evaluation, including project cash flow analysis and using financial models to determine the discount rate. (Don’t worry; these terms will be familiar to you as you progress through the course.)

Both exams must be taken in a proctored setting. More information about this process is available within the course. Exam proctoring fees are not included in the course fee.

The course is entirely self-paced. I do encourage you to progress through the assignments and set goals for yourself. The only firm deadline is that the course must be completed within five months after you begin it.

**GRADING**

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**ACADEMIC INTEGRITY**

Markets are very good at sorting out true value. The real test of an education occurs not in a quiz or assignment, but rather in its use by the graduate. To ensure that the reputation of our graduates remains strong, McCombs has a straight-forward policy on ethics and academic integrity that supports The University’s Code of Conduct.

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program’s Statement on Scholastic Dishonesty at [http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx](http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx).

Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value
of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.