

State University of New York at Buffalo
Department of Economics

ECO 527 Financial Economics 2

Fall 2008

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Welcome to my class! A successful class can not be made without effective communications between teacher and students. I encourage you provide any valuable feedback, by all means.

As **teacher** I have the following **responsibilities**:

1. Design my class to facilitate your learning
2. Come to every class with well thought-out presentation
3. Consider that it is not always your fault if you don't understand the material
4. Create a mutually respectful classroom environment
5. Not to get defensive when you politely question my grading

As **students** you have the following **responsibilities**:

1. Complete all work on time with proper thought
2. Consider that it is not always my fault if you don't understand the material
3. When you don't understand or feeling you have missed something, ask questions and make up the missing parts ASAP
4. Again, ask questions. It is a sign of maturity, not ignorance
5. Treat others and me with respect
6. Understand that I don't gain anything by "nit-picking" when I grade

Class Time and Room: Tu. and Th. 3:30-4:50PM, Class Room – 103 TALBRT.

Office Hours: Tuesday and Thursday 2 – 3 PM or by appointment.

Course Objective: With Financial Economics 1, you apply finance knowledge on general investment decisions. In this course the focus will be on corporate financing decisions. The content you learn will be very practical for financial managers, as well as interesting to financial economists.

Course materials:

1. **Textbook:** Corporate Finance, Stephen Ross, Richard Westerfield, and Jeffrey Jaffe, McGraw-Hill, eighth Edition (8e), 2006.
 - a. Note: The text mostly targets at MBA students and is extensive. We will have to omit some topics that are relatively narrow although practically matters. If you are interested in the topics I do not plan to cover, let me know.
2. Reference: Principles of Corporate Finance, Richard A. Brealey, Stewart C. Myers, and Franklin Allen, eighth Edition (8e), 2007
3. Handouts will be available on the Ublearns the evening before every class
4. Other reading materials or assignments will also be available on the Ublearns

Prerequisite: Econ 526 (Financial Economics I).

Grading:

1. Contribution to the class: 10%, (asking questions, sharing your ideas, correcting my errors, making suggestions; if you just show up, 4%)
2. Midterm exam : 25%
3. Final exam: 35% (cumulative, closed book)
4. There will be no make up exams unless verifiable authentic documentation is provided due to serious health reasons.
5. Case studies: 20% (Done in groups. Reading, discussion, and writing a final report. The scoring criteria are given below.)
6. Homework: 10% (Done in groups. This 10% is “free” as long as you show me the effort.)

Academic Integrity:

In strict accordance with the University Policy, any violations to the Academic Honesty Code will be reported to the chair of Economics Department. Whatever verdict the Chair gives will be implemented.

Tentative Course Outline:

Date	Week	Chapter	Topic	Notes
26-Aug	1		Introduction	
28-Aug	1	2	Review of accounting and valuation	
2-Sep	2	6		
4-Sep	2	7	Capital budgeting	
9-Sep	3	8		
11-Sep	3	9	Review of risk and return	
16-Sep	4	10		
18-Sep	4	11		
23-Sep	5	12	Cost of capital	Homework 1 assigned
25-Sep	5	13	Market efficiency	
30-Sep	6			Holiday
2-Oct	6	14	Capital structure	Homework 1 due
7-Oct	7	Case		Reading
9-Oct	7			Holiday
14-Oct	8	Review		
16-Oct	8			Midterm 1
21-Oct	9	15		
23-Oct	9			
28-Oct	10	Case		Case discussion
30-Oct	10	15		
4-Nov	11	16		
6-Nov	11	16		
11-Nov	12	17	Valuation with leverage and taxes	
13-Nov	12	17		
18-Nov	13	18	Payout policy	Analysis report due
20-Nov	13	19	Issuance	Homework 2 assigned
25-Nov	14	20		
27-Nov	14			Holiday
2-Dec	15	29	Mergers & Aquisitions	Homework 2 due
4-Dec	15	Review		

Rubrics for group study:

Category	Beginning 1	Developing 2	Accomplished 3	Exemplary 4
Group Cooperation	We did most of the work by ourselves, we talked a little among our group members	We worked together most of the time, sharing information regularly	We worked together so that everyone contributed to the final project	Everyone worked together using his or her abilities and knowledge to make the project come together
Distribution of Group Tasks	Some group members did not complete any of the work	Everyone had a job to do but some jobs were incomplete	We divided up and completed the work equally	Work was shared fairly according to the abilities and interests of the members
Communication among group members	We only talked when we thought we needed to, but received little feedback	We talked about what we were doing	We usually asked each other for help and showed our work to each other	We talked all the time and shared our work for group feedback
Individual Participation	A few people tried very hard, but most didn't do much	Each person did some work and tried to do a fair share	We all seemed to find our place and do what was needed	Everyone did a great job, I would work with these people again
Showing respect	No one was courteous and opinions were not valued	Some were courteous and some opinions were valued	Most were courteous and most opinions were valued	All were courteous and valued each other's opinions

Case Study Report Grading Standard:

1. The weight of peer grading is 40%. The rest depends on the following criteria.

25% Content and Organization -

- 10% - Are the major issues of the case answered or discussed?
- 10 % - Are the presentation of methods and analysis well organized, and there are no missing steps?
- 5% - Are the introduction and conclusion concise and get to the point, or whether the report raises interesting facts or ideas with proper explanations?

20% Logic -

- 10% - Is the logic in the analysis clear, so that majority of the class should understand with no difficulty?
- 10% - Is the calculation correct given the assumptions made by the writers?

15% Professional writing -

- 5% - Is the report free of grammar and punctuation errors?
- 5% - Is the format (fonts, paragraph, etc) clean and effective?
- 5% - Is the report handed in on time?

2. The report should be typed, with font size 12, double space.

3. You can submit a hard copy or WORD file.

4. When you submit the report, use the following section to evaluate each member of your group.

a. Your evaluation should be honest.

b. You can put the members' total grades in an envelope with your name on it, or email them to me.

Category	Beginning 1	Developing 2	Accomplished 3	Exemplary 4
Source of Conflict	Participated in regular conflict that interfered with group progress. The conflict was discussed outside of the group.	Was the source of conflict within the group? The group sought assistance in resolution from the instructor.	Was minimally involved in either starting or solving conflicts.	Worked to minimize conflict and was effective at solving personal issues within the group.
Assistance	Contributions were insignificant or nonexistent	Contributed some toward the project	Contributed significantly but other members clearly contributed more	Completed an equal share of work and strived to maintain equity throughout the project
Effectiveness	Work performed was ineffective and mostly useless toward the final project	Work performed was incomplete and contributions were less than expected	Work performed was useful and contributed to the final project	Work performed was very useful and contributed significantly to the final project
Attendance & Readiness	Rarely attended group meetings, rarely brought needed materials, and was rarely ready to work	Sometimes attended group meetings, sometimes brought needed materials, and was sometimes ready to work	Almost always attended group meetings, almost always brought needed materials, and was almost always ready to work	Always attended group meetings, always brought needed materials, and was always ready to work
Focus on the task	Rarely focused on the task and what needed to be done. Let others do the work.	Focused on the task and what needed to be done some of the time. Other group members sometimes had to nag, prod, and remind to keep this member on task.	Focused on the task and what needed to be done most of the time. Other group members could count on this person most of the time.	Consistently stayed focused on the task and what needed to be done. Other group members could count on this person all of the time.