

Finance 323 Exam I Outline

This is an Outline of the first 7 chapters of the book. A good use for this outline is to look at the topics and see what you can say about them. For example: Can you define the terms? Can you describe how the concept is used? Can you think of an application? Can you find a problem in the appropriate chapter and solve it without help? Can you come up with a good question relating to the topic? Can you explain the idea and its use to someone else?

I. Chapter 1 INTRODUCTION TO FINANCIAL MANAGEMENT

A. Finance: A Quick Look

1. The Four Basic Areas
2. Why Study Finance?

B. Business Finance and the Financial Manager

1. What Is Business Finance?
2. The Financial Manager
3. Financial Management Decisions

C. Forms of Business Organization

1. Sole Proprietorship
2. Partnership
3. Corporation
4. A Corporation by another Name...

D. The Goal of Financial Management

1. Profit Maximization
2. The Goal of Financial Management in a Corporation
3. A More General Financial Management Goal
4. Sarbanes-Oxley Act

E. The Agency Problem and Control of the Corporation

1. Agency Relationships
2. Management Goals
3. Do Managers Act In The Stockholders' Interests?
4. Stakeholders

F. Financial Markets and the Corporation

1. Cash Flows To and From The Firm
2. Primary versus Secondary Markets

II. Chapter 2 FINANCIAL STATEMENTS, TAXES AND CASH FLOW

A. The Balance Sheet

1. Assets: The Left-Hand Side
2. Liabilities and Owners' Equity: The Right-Hand Side
3. Net Working Capital
4. Liquidity
5. Debt versus Equity
6. Market Value versus Book Value

B. The Income Statement

1. GAAP and the Income Statement
2. Non-cash Items
3. Time and Costs
4. Earnings Management

C. Taxes

1. Corporate Tax Rates
2. Average versus Marginal Tax Rates

D. Cash Flow

1. Cash Flow from Assets
2. Cash Flow to Creditors and Stockholders
3. An Example: Cash Flows for Dole Cola

III. Chapter 3 WORKING WITH FINANCIAL STATEMENTS

A. Standardized Financial Statements

1. Common-Size Balance Sheets
2. Common-Size Income Statements

B. Ratio Analysis

1. Short-Term Solvency, Or Liquidity, Measures
2. Long-Term Solvency Measures
3. Asset Management, Or Turnover, Measures
4. Profitability Measures
5. Market Value Measures

*C. The Du Pont Identity**D. Internal and Sustainable Growth*

1. Dividend Payout and Earnings Retention
2. ROA, ROE, and Growth

E. Using Financial Statement Information

1. Why Evaluate Financial Statements?
2. Choosing a Benchmark
3. Problems with Financial Statement Analysis

IV. Chapter 4 INTRODUCTION TO VALUATION: THE TIME VALUE OF MONEY

A. Future Value and Compounding

1. Investing For a Single Period
2. Investing For More Than One Period

B. Present Value and Discounting

1. The Single-Period Case
2. Present Values for Multiple Periods

C. More on Present and Future Values

1. Present versus Future Value
2. Determining the Discount Rate
3. Finding the Number of Periods

V. Chapter 5 DISCOUNTED CASH FLOW VALUATION

A. Future and Present Values Of Multiple Cash Flows

1. Future Value with Multiple Cash Flows
2. Present Value with Multiple Cash Flows
3. A Note on Cash Flow Timing

B. Valuing Level Cash Flows: Annuities and Perpetuities

1. Present Value for Annuity Cash Flows
2. Future Value for Annuities
3. A Note on Annuities Due
4. Perpetuities

C. Comparing Rates: The Effect of Compounding Periods

1. Effective Annual Rates and Compounding
2. Calculating and Comparing Effective Annual Rates
3. EARs and APRs
4. EARs, APRs, Financial Calculators, And Spreadsheets

D. Loan Types and Loan Amortization

1. Pure Discount Loans
2. Interest-Only Loans
3. Amortized Loans

VI. Chapter 6 INTEREST RATES AND BOND VALUATION

A. Bonds and Bond Valuation

1. Bond Features and Prices
2. Bond Values and Yields
3. Interest Rate Risk
4. Finding the Yield to Maturity: More Trial and Error

B. More on Bond Features

1. Is It Debt Or Equity?
2. Long-Term Debt: The Basics
3. The Indenture

*C. Bond Ratings**D. Some Different Types of Bonds*

1. Government Bonds
2. Zero Coupon Bonds
3. Floating-Rate Bonds
4. Other Types of Bonds

E. Bond Markets

1. How Bonds Are Bought and Sold
2. Bond Price Reporting

F. Inflation and Interest Rates

1. Real versus Nominal Rates
2. The Fisher Effect

G. Determinants of Bond Yields

1. The Term Structure of Interest Rates
2. Bond Yields and the Yield Curve: Putting It All Together
3. Conclusion

VII. Chapter 7 EQUITY MARKETS AND STOCK VALUATION

A. Common Stock Valuation

1. Cash Flows
2. Some Special Cases
3. Components of the Required Return

B. Some Features of Common and Preferred Stocks

1. Common Stock Features
2. Preferred Stock Features

C. The Stock Markets

1. Dealers and Brokers
2. Organization of the NYSE
3. NASDAQ Operations
4. Stock Market Reporting

The first exam points will be approximately 85% multiple choice and the remaining points will be short problems or essay. The multiple choice questions are such that some will not require any calculations and others will. Please bring a scantron sheet, a calculator and a pencil.

Finally don't try to memorize formulas. The human just does not do well with that sort of learning. In it is not learning. Formulas are the result (in short hand) of the thinking process, not the other way around. If you paid attention as I did problems in class you should have noticed that I did not say (or do) "here is the formula you must use." Think about relationships? What is the cash flow to stockholders: $CFS = D - NNE$? This does not say much. But think. Stockholders get dividends and they could be asked to purchase new shares or the firm could repurchase shares from stockholders. So you should net all of these out to get the cash flow the stockholders got. i.e. Cash flow to stockholders is equal to dividends – sale of new stock + repurchase of existing stock. Which is of course is what the not very helpful formula above said?