

**FIN 6436**

Reference Number: Section Number: RT
 Prerequisite FIN 6428 and FIN 6456

Saturdays: 0900 -1330 Hours (May 6 -June 24, 2006)

Summer 2006**Arun J Prakash**

#RB 202A, Department of Finance, College of Business Administration

Office Hours: By appointment

(Office) (305) 348-3324 Home Number to be given in class prakasha@fiu.edu

University Drop Date: No Drop Date (Value added program)

Please read this syllabus in its entirety. It is a part of the course content. It is important that you understand what is required in this course and the timeframes for completing assignments and activities.

COURSE DESCRIPTION:

This is an elective course for MBA and required course for MSF students (corporate finance track). In this course we are going to discuss the long-term resource allocation by firms for growth and prosperity. During the study of this course we will discuss various allocation techniques for single, mutually exclusive, independent, dependent etc., projects. Actual cases will be used to bring about the salient features of the capital budgeting process.

LEARNING OBJECTIVES/OUTCOMES

After the completion of this course you should be able to help a firm in its long-term resource allocation problems. The study of real life cases will enhance your ability to foresee the nuances of actual resource allocation procedures and hence the overall valuation of the firm. You should also be able to determine the risk of ruin, increase or decrease in the firm's ability to sustain debt etc.

COURSE MATERIALS:

- There is no required textbook for this course. The required materials will be handed out in the class. The materials, besides my own class notes, are from the following sources: (All are attached in the course binder).
- **Capital Budgeting: Planning and Control of Capital Expenditures** by John J. Clark, Thomas J. Hindelang, and Robert E. Pritchard (**CHP**), Prentice Hall (various chapters).
- **Lecture Notes** by Arun J. Prakash (**AJP**) (various chapters).
- **The Capital Budgeting Decision: Economics Analysis of Investment Projects** by Harold Bierman and Seymour Swift (**BS**), Prentice Hall.
- Required software (if applicable):
 No special software is required, however a knowledge of Excel is a must. Also you must have a business calculator like BA II PLUS or HP 12 C

SUGGESTED READINGS AND MATERIALS (All are attached in the course binder)

- *Arun J. Prakash, Gordon V. Karels, and Krishnan Dandapani, "Simple Resource Allocation Rules", Journal of Business Finance and Accounting.
- *Gary Anderson and Arun J. Prakash, "A Note on Simple Resource Allocation Rules", Journal of Business Finance and Accounting.
- Gary A. Anderson, Joel R. Barber, James D. Keys, Arun J. Prakash, "The Net Present Value Rate of return: An integration of the NPV and Expected Rate of Return on a project"

PLEASE BRUSH UP ON CODING THEOREMS AND TIME VALUE OF MONEY WHICH YOU LEARNED IN FIN 6456

CASES: (All are attached in the course binder)

- Diamond Chemicals PLC (B): Merseyside and Rotterdam Projects
- Genzyme/Geltex Pharmaceuticals Joint Venture
- Euroland Foods S.A
- Star River Electronics Ltd

COURSE OUTLINE:

- Introduction
- Introduction to Capital Budgeting and Assumptions - Lecture & Chapter 4 of **CHP**
- Estimation of cash inflow and outflow - various chapters **AJP**
- The Cost of Capital – various chapters **AJP**, Chapter 8 **CHP**
- Evaluation of Single Projects – various chapters **AJP**, Chapter 4 - 6 **CHP**
- Evaluations of Mutual Exclusive Projects – Chapter 7 **CHP**
- First Examination
- Self Study: Study the Chapter on Risk and Return from the textbook you used in any undergraduate and/or graduate level basic financial management class (will not be part of any examination).
- Evaluation of Project under Capital Rationing - Lecture Handout
- Capital Budgeting and Inflation - Lecture, Handouts
- Project Selection Under Conditions of Risk and Portfolio Effects – Chapter 13, 14, 16, 17 **CHP**, and self reading from previous classes
- Capital Budgeting and Real Options – Chapters Chapter 21, 22 **BS**
- The Grand Finale: Capital Asset Pricing, Project Selection, Valuation of the Firm, Debt Capacity of Firm – Lecture, Handout, Chapter 17 **CHP**

The schedule for Case discussions will be announced in the class after consultation with the students.

GRADING:

The final grade is based upon on the two in class examination and four cases. The letter grade which you will receive is based upon the scale below:

100-95	A	83-80	B-	69-67	D+
94-90	A-	79-77	C+	66-64	D
89-87	B+	76-74	C	63-60	D-
86-84	B	73-70	C-	59-00	F

The percentage weights are as follows:

Each in Class examination	40 percent each
Cases and class participation	15 percent
Take home examination	5 percent

EXAMINATION DATES

First Examination	May 27, 2006 from 9 a.m to 11.40p.m
Second Examination	June 24, 2006 from 9 a.m to 11.40p.m

Note all exams will be in-class from 9a.m to 11.40a.m after the break, [we will meet again for the rest of the class sessions. Your 5 point take home exam will be based on this lecture and will be due on Monday, June 26, 2006 by 5p.m](#)

COURSE REQUIREMENTS:

- Manner of course delivery: Most of the course will be in lecture format supported by power point presentations. I am a firm believer in foundation and basics. If you do not a strong foundation of the pre-required materials for any course, you will not be able to understand the intricacies of the materials that will follow. My course will always prepare you to learn the advanced materials of the course under consideration on your own
- Course workload expectations: Since every course in MSF program finishes in eight weeks, the pressure will be tremendous. Expect to spend at least 10-hours outside the class room for every class lecture. The worst thing you can do is to miss a class.
- Reading, projects, cases, teamwork, and presentation details; It will be helpful if you have read the “ materials to be covered “ in the upcoming class before you come to the class.
- There is no project in this course, but you are expected to hand in the solution of the case on the dates specified above.
- Teamwork: You can work in a group of two but no more than three. However, whatever group you make, every person in the group will get the same score. I am not going to an arbiter of who did what in the group.
- Presentation: Each group will be expected to present the case. The schedule will be announced in the class.

EXPECTATIONS REGARDING

- **Participation:** The scores in cases will be a function of the handed out solutions and your presentation. Your participation in the discussion of cases as well as in the class is not only expected but required and encouraged.
- **Class attendance:** In order to receive full 5percent in the class attendance you must not be absent more than once. Three or more absence will earn you Zero points.
- The submission of on-time and penalties for late-work submissions. The semester is very short, therefore home work assignments will not be accepted late

EXAM CRITERIA AND OPTIONS:

Policies for all Examinations – Read Carefully

- Each of your examinations is based on a total of 93 points
- Do not ask any questions during the examination because none will be answered.
- Even though examination ends at 11:40a.m if you hand in your answer sheet on or before 11:20a.m, you will get a twelve-point bonus.
- Therefore, it is possible to score 104 points out of 100 in this course.
- In case you do not avail of the bonus your score will be prorated to 100 points.
- For each minute over 11:40a.m., one point will be deducted, handing the exam after 11:50a.m. will earn you zero points for the entire examination.

- Make sure that your calculator works and you have extra batteries available. A non-working calculator will be no excuse for a make-up test.
- You may be asked to produce a photo ID during the examination.
- There will be no curve grading. If every person in the class obtains between 95 and 100 every person gets an A. If every person scores less than 55, everyone gets an F.
- You must hand in the examination, answer sheet, and formula sheet at the end of the examination.
- Your examination is non-cumulative, i.e., second examination will cover the materials covered after the first examination to the second examination, etc.

EXAM AND ASSIGNMENT MAKE-UP POLICIES

Absolutely no make ups unless you are unable to take the examination due to catastrophic reasons beyond your control. Job related travel is not a catastrophic reason.

YOUR CLASS PRACTICES RELATING TO THE INTERNET

(i.e. if students need to check their e-mail or visit web sites periodically.): Except for syllabus I do not post anything on the Internet. Once in a while I will ask you to go to a particular site for a specific reason. I never post grades and/or solutions on the internet. If you want your grade before it is posted by the registrar's office, please submit a self-addressed stamped envelope on the day of the final. Every assignment, reading materials and solutions to home work problems will be handed out in the class.

GROUP PARTICIPATION REQUIREMENTS: For cases the formation of groups will be discussed in class.

COURSE POLICIES AND EXPECTATIONS:

A. ACADEMIC:

- Students must understand that attendance in my courses is a must. Missing a class will put you so far behind that you may not be able to catch up.
- Students must recognize that doing the assignments in a timely manner will not only assist you in understanding the subject matter timely and properly, it will also facilitate me in running the progression of the course properly.
- Students must commit to absolute academic honesty (see below)
- It is expected that students will behave in a gentlemanly fashion when the class is in progress. Whispering and/or talking when the class is in progress will not be tolerated.

B. INTELLECTUAL HONESTY

A statement of expectation on intellectual honesty is now required for CBA syllabi. It should include:

Statement of Understanding between Professor and Student Code of Academic Integrity

Every student must respect the right of all to have an equitable opportunity to learn and honestly demonstrate the quality of their learning. Therefore, all students must adhere to a standard of academic conduct, demonstrating respect for themselves, their fellow students, and the educational mission of the University. As a student in the College of Business Administration's ([FIN 6436- Capital Budgeting and Long Term Resource Allocation](#)), I will not represent someone else's work as my own.

- I will not cheat, nor will I aid in another's cheating.
- I will be honest in my academic endeavors.
- I understand that if I am found responsible for academic misconduct, I will be subject to the academic misconduct procedures and sanctions as outlined in the FIU Student Handbook.

C. Academic Honesty Policy

Code of Standards

A University is a learning community that follows a tradition of more than 1,000 years. Florida International University is such a community, dedicated to generating and transmitting knowledge through excellent teaching and research, the rigorous and respectful exchange of ideas, and community service. As a member of this community:

- I will respect the tradition of academic inquiry, the University’s rules of conduct, and its mission.
- I will respect the opinions and differences of all members of the FIU community.
- I will practice civility and avoid behavior that undermines the normal functioning of the University.
- I will respect the rights and property of the University and its members.
- I will be diligent and honest in my personal and academic endeavors.

Code of Academic Integrity

This Code of Academic Integrity was adopted by the Student Government Association on November 28, 2001 and reflects the values articulated in the Student Code of Standards. All students are expected to adhere to a standard of academic conduct, which demonstrates respect for themselves, their fellow students, and the educational mission of Florida International University.

Pledge

As a student in the College of Business:

I will be honest in my academic endeavors.

I will not represent someone else’s work as my own.

I will not cheat, nor will I aid in another’s cheating.

All students are deemed by the University to understand that if they are found responsible for academic misconduct, they will be subject to the Academic Misconduct procedures and sanctions, as outlined in the Student Handbook.

My signature below indicates that I have read this document and accept its content:

Signature	
Name (Please Print)	
SSN	

COLLEGE OF BUSINESS ADMINISTRATION



Academic Honesty Policy (continued)

Group Assignment Cover Page

Group Member 1 Last Name, First Name _____	Phone Number - Home ____-____-____	Phone Number – Work ____-____-____
Group Member 2 Last Name, First Name _____	Phone Number - Home ____-____-____	Phone Number – Work ____-____-____
Group Member 3 Last Name, First Name _____	Phone Number - Home ____-____-____	Phone Number – Work ____-____-____
Group Member 4 Last Name, First Name _____	Phone Number - Home ____-____-____	Phone Number – Work ____-____-____
Group Member 5 Last Name, First Name _____	Phone Number - Home ____-____-____	Phone Number – Work ____-____-____
Group Member 6 Last Name, First Name _____	Phone Number - Home ____-____-____	Phone Number – Work ____-____-____
Date of Submission	Title of Assignment	

CERTIFICATION OF AUTHORSHIP: I certify that I am the author of this paper and that any assistance I received in its preparation is fully acknowledged and disclosed in the paper. I have also cited any sources from which I used data, ideas or words; either quoted directly or paraphrased I also certify that this paper was prepared by me specifically for this course.

Signature Member 1: _____ **Signature Member 4:** _____

Signature Member 2: _____ **Signature Member 5:** _____

Signature Member 3: _____ **Signature Member 6:** _____

COLLEGE OF BUSINESS ADMINISTRATION



Academic Honesty Policy (continued)

Individual Assignment Cover Page

Submitted to:	
Submitted by:	
Your Phone Number:	
Your e-mail:	
Date of Submission:	
Title of Assignment:	

CERTIFICATION OF AUTHORSHIP: I certify that I am the author of this paper and that any assistance I received in its preparation is fully acknowledged and disclosed in the paper. I have also cited any sources from which I used data, ideas or words; either quoted directly or paraphrased I also certify that this paper was prepared by me specifically for this course.

Signature

CBA Syllabus Items On
Sexual Harassment, Religious Holy Days,
and Disability Services

Sexual Harassment:

“Florida International University recognizes the basic right and freedoms of students. The following rights and freedoms are recognized as basic to the educational process: Sexual Harassment: Students are entitled to work and study in an atmosphere free from unsolicited and unwelcome sexual overtures or innuendos.”

2002-2003 FIU Student Handbook

Religious Holy Days:

“Faculty are encouraged to make accommodations for students who wish to observe religious holidays. For a listing of religious holidays, you may visit: <http://www.interfaithcalendar.org> Students should make their requests known at the beginning of the semester.”

2003-2004 Academic Calendar

Disability Services

“Students with disabilities who are unable to complete regular course requirements should request, in consultation with ODS, the course modifications needed from their professors. *Requests should be made as early as possible. ODS will cooperate with the student and the professor to secure appropriate accommodations.*”

*Office of Disability Services Web-page
<http://www.fiu.edu/~disser/>*