Financial Decisions: Fall 2012

Meets Thursdays 9:30 AM - 12:10 PM in room 004 of the Levin Building.

Instructor: Steven M. Director, Ph. D. (email: Steven.Director@Rutgers.edu)

The course will examine the relationships between corporate finance and human resource management and labor relations. Making good HR or LR decisions does not always require developing spreadsheets and utilizing their built-in financial functions. It does always require thinking logically and systematically about the financial implications of your recommendations and actions. ***Note: This course is designed for students without prior training in accounting or finance. Students with previous coursework in these areas should speak with the instructor about the possibility of waiving this course.***

Text: **Robert C. Higgins, Analysis for Financial Management**, McGraw Hill, 10th edition.

I suggest you bring a calculator to each class session and to the two exams (a simple one that does basic arithmetic will be sufficient).

Grading will be based on a midterm exam (30%), a team project (20%), and a final exam (50%).

Written instructions for the term project will be distributed and discussed in class on Sep 20, 2012.

Date	Session	Topic	Reading
Sep 6	1	Financial Statements: Suppose the day after you graduate you start your own business. One year later, what are the financial questions that you would be asking? Perhaps number one on your list would be did your firm make a profit. You would also want to know about the financial condition of your business, i.e. will your firm have the financial strength to ride out difficult economic conditions should you encounter them, or on the flipside will your firm have the financial strength to take advantage of attractive expansion opportunities. A third question you will no doubt ask is what rate of return you are earning on your investment. Could you have earned a comparable or better return from an alternative investment, perhaps one that was less much risky than starting up a small business? The questions you would want answered as the owner of a small privately held business are the same ones that the CEOs, CFOs, and other executives of publicly held corporations worry about. How close can the standard financial statements come to providing useful answers to these questions?	Merrill Lynch handout
Sep 13	2	Profit, Cash Flow, and Financial Condition: What's the difference between cash flow and profit? Why is cash flow even important as long as you are making a profit large enough to give you a good return on your investment?	Higgins, Chapter 1
Sep 20	3	Financial statements as a window into corporate strategy: Successful HR strategies are those that align with and support the firm's business strategy. Successful business strategies are those that create shareholder value. A major goal of financial analysis is to identify when and how much shareholder value is created.	Higgins, Chapter 2
Oct 27	4	Financial Instruments and markets: What are the differences between Common Stock, Preferred Stock, and Bonds? What is an efficient market and what are the implications of efficiency?	Higgins, Chapter 5 (but not appendix)

Oct 4	5	Discounted Cash Flow Analysis: When do the future benefits justify the upfront costs? What are the relevant cash flows? Why is it necessary to convert profit estimates to cash flows estimates? What are the strengths and weaknesses of Net Present Value versus Internal Rate of Return?	Higgins, Chapter 7
Oct 11	6	Weighted Average Cost of Capital and Capital Asset Pricing Model: No business strategy and no HR strategy can create value for the firm unless it generates a return on investment greater than the firm's cost of capital. For that reason it is critical to understand what determines a firm's cost of capital and the implications of the cost of capital for all strategic and operating decisions made by the firm.	Higgins, Chapter 8
Oct 18	7	No lecture this week: Meet with project teams	
Oct 25	8	***Mid-term Quiz***	
Nov 1	9	Financial Analysis of HR Initiatives: What are the components of your firm's HR budget? What process was used to allocate this budget across these components? Are financial spreadsheet models helpful when making specific HR decisions such as whether to use overtime rather than hire new staff, continue an expensive training program, or build an on-site daycare facility for the children of your employees?	handouts
Nov 8	10	Financial Analysis of Strategic Initiatives: How do firms model and manage risk? How can a decision such as whether or not to introduce a new product be modeled using scenario analysis, real options, and Monte Carlo simulations?	handouts
Nov 15	11	Financial Analysis of Mergers and Acquisitions: Using comparables versus DCF models. Review spreadsheet example for calculating maximum price per share. What's the logic behind using a perpetual growth model to estimate terminal value? Which WACC should be used? What happens when a model combines powerful theory with weak assumptions?	Higgins, Chapter 9
Nov 20	12	Pension finance: Financial significance of pensions plans in US economy and in individual corporations. What are the differences between Defined Contribution and Defined benefit plans? Reading and interpreting the pension footnotes in your firm's annual report. Why are pension costs based on expected rather than actual earnings? Do individuals invest the assets in their own 401Ks the same way professionals invest the assets in DB plans?	Handouts
Nov 29	13	Equity Compensation: What are the differences between exchange-traded and employee stock options? When would employees prefer options over stock? When would employers prefer options over stock? Why the debate over the expensing of stock options? Reading the stock option footnotes in your firm's annual report. Why are some firms shifting from Black-Scholes to Lattice models? Why are some firms shifting from stock options to restricted stock or performance shares?	Handouts
Dec 6	14	Financial measures as bonus drivers: What different signals do you send to managers if you tie their bonuses to different measures of firm success? How do you choose among alternative measures such as EPS, EBITDA, TSR, ROE, ROIC, EVA, CFROI, etc. Which measures are most likely to encourage value creation? Should a firm's business strategy determine which bonus drivers are used?	
Dec 13	15	***Final Exam***	