

Syllabus

Course Overview

This course provides an overview of the principles of finance. The emphasis of this course is on corporate financial concepts and on the application of common financial tools and techniques. Topics covered in the course include financial markets and environments, time value of money concepts, stocks and bond valuation, and capital budgeting processes.

Course Competencies

(Read Only)

To successfully complete this course, you will be expected to:

- 1 Evaluate the global financial environment.
- 2 Define finance terminology and its application within the business environment.
- 3 Evaluate the financial health of an organization.

Course Prerequisites

Learners who have received credit for BUS3060 may not take BUS3062 or BUS-FP3062.

Syllabus >> Course Materials

Required

The materials listed below are required to complete the learning activities in this course.

Integrated Materials

Many of your required books are available via the VitalSource Bookshelf link in the courseroom, located in your Course Tools. Registered learners in a Resource Kit program can access these materials using the courseroom link on the Friday before the course start date. Some materials are available only in hard-copy format or by using an access code. For these materials, you will receive an email with further instructions for access. Visit the [Course Materials](#) page on Campus for more information.

Book

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). McGraw-Hill. ISBN: 9781259919633.

Suggested

The following materials are recommended to provide you with a better understanding of the topics in this course. These materials are not required to complete the course, but they are aligned to course activities and assessments and are highly recommended for your use.

Optional

The following optional materials are offered to provide you with a better understanding of the topics in this course. These materials are not required to complete the course.

Unit 1 >> Financial Management

Introduction

In Unit 1, you will learn about the financial environment, the role of financial managers in an organization, the various types of financial markets, and the relationships between interest rates and other macro economic variables.

Financial managers are known as the agents of owners who are the stockholders in a company. The goal of financial managers is to maximize the shareholders' wealth. Shareholders have many options to invest their money. Financial markets bring investors and borrowers together for transfer of funds from investors to firms. For the markets to be efficient, proper rules and regulations are necessary.

Learning Activities

u01s1 - Studies

Readings

Use your Cornett, Adair, and Nofsinger text, *M: Finance*, to complete the following:

- Read Chapter 1, "Introduction to Financial Management," pages 3–26. This chapter introduces finance and the functional function, including business organizations, firm goals, and agency theory.
- Read Chapter 6, "Understanding Financial Markets and Institutions," pages 147–198. This chapter covers various types of financial markets and the relationships between interest rates and other macro economic variables.

Multimedia

- Click [The Role of the Chief Financial Officer](#) to view this presentation.
- Click [Financial Markets](#) to view this presentation.

u01a1 - Introduction to Financial Management

Introduction

This assignment will familiarize you with various terms used in finance and financial management. After completing this assignment, you will understand the following:

- The role of a finance manager in an organization.
- The finance manager's goals and objectives.
- The challenges faced by a finance manager on a daily basis.
- Why ethical behavior is so important in this field.

Instructions

Complete the following problems and answer the following questions, as applicable:

- Question 1:
 - Proficient-level: Define the terms *finance* and *financial management*. Identify and provide a brief description of the four major sub-areas of finance.
 - Distinguished-level: Describe the nature of risk.
- Question 2:
 - Proficient-level: "What are the three basic forms of business ownership? What are the advantages and disadvantages to each?" (Cornett, Adair, & Nofsinger, 2019, p. 23).
 - Distinguished-level: Discuss the advantages and disadvantages of each of the three basic forms of business ownership to access capital.
- Question 3:
 - Proficient-level: Define the terms *agency relationship* and *agency problem*, and list the three approaches to minimize the conflict of interest resulting from the agency problem.
 - Distinguished-level: Describe the role of corporate governance.
- Question 4:
 - Proficient-level: "Why is ethical behavior so important in the field of finance?" (Cornett et al., 2019, p. 23).
 - Distinguished-level: Provide examples of financial scandals.
- Question 5:
 - Proficient-level: "Does the goal of shareholder wealth maximization conflict with behaving ethically? Explain" (Cornett et al., 2019, p. 23).
 - Distinguished-level: Explain the meaning of Adam Smith's term, *invisible hand*.

Write your responses in a Microsoft Word document and submit it as an attachment in the assignment area. Prior to submitting your assignment, review the Introduction to Financial Management Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u01a2 - Financial Markets and Institutions

Introduction

You have studied the various financial markets and institutions in Chapter 6 of the textbook by Cornett, Adair, and Nofsinger. In this assignment, you will apply the knowledge you have gained by classifying market transactions and financial instruments and by describing how financial markets work.

Instructions

Answer the following questions and complete the following problems, as applicable.

- Question 1:
 - Proficient-level: "Classify the following transactions as taking place in the primary or secondary markets:
 - IBM issues \$200 million of new common stock.
 - The New Company issues \$50 million of common stock in an IPO.
 - IBM sells \$5 million of GM preferred stock from its marketable securities portfolio.
 - The Magellan Fund buys \$100 million of previously issued IBM bonds.
 - Prudential Insurance Co. sells \$10 million of GM common stock" (Cornett et al., 2019, p. 181).
 - Distinguished-level: Provide correct responses to each of the five items.
- Question 2:
 - Proficient-level: "Classify the following financial instruments as money market securities or capital market securities:
 - Federal Funds
 - Common Stock
 - Corporate Bonds
 - Mortgages
 - Negotiable Certificates of Deposit
 - U.S. Treasury Bills
 - U.S. Treasury Notes
 - U.S. Treasury Bonds
 - State and Government Bonds" (Cornett et al., 2019, p. 181).
 - Distinguished-level: Provide correct responses to each of the nine items.
- Question 3:
 - Proficient-level: "What are the different types of financial institutions? Include a description of the main services offered by each" (Cornett et al., 2019, p. 181).
 - Distinguished-level: Provide a definition of the term, *liquidity*.
- Question 4:
 - Proficient-level: "What are six factors that determine the nominal interest rate on a security?" (Cornett et al., 2019, p. 182).
 - Distinguished-level: Identify the two factors common to all financial securities.
- Question 5:
 - Proficient-level: Define the concept, term structure of interest rates. List and describe the three theories explaining the shape of the term structure of interest rates.
 - Distinguished-level: Identify the slope of the most common yield curve for a U.S. Treasury security.

Write your responses in a Microsoft Word document and submit it as an attachment in the assignment area. Prior to submitting your assignment, review the Financial Markets and Institutions Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill. ISBN:9781259919633.

Course Resources

[Writing Feedback Tool](#)

u01d1 - Finance in Professional and Personal Decision-Making

Read the Discussion Participation Scoring Guide to learn how the instructor will evaluate your participation in discussions throughout this course. Unless noted otherwise, the expectations reflected in the scoring guide apply to all course discussions.

Finance is both an art and a science that involves managing money and valuing things. Chapter 1 in the *M: Finance* textbook, by Cornett, Adair, and Nofsinger, provides an introduction to finance and financial management. Review Chapter 1, with particular emphasis on the "Finance in Business and in Life," and "The Financial Function" sections of this chapter.

For this discussion post:

- Define the term *finance* in your own words.
- Describe areas in which you currently make financial decisions.
- Share an example or two of both good and bad financial decisions you have observed.
- Explain how the study of the principles of finance might improve both your professional and personal financial decisions.

Response Guidelines

Read your peers' initial discussion posts and respond to at least two of them. Compare your post to those of your peers and note any differences. Explain why you agree or disagree with your peers' views and analyses. Your responses are expected to be substantive in nature and should reference the assigned readings or other professional literature, as applicable, to support your views.

Course Resources

[Undergraduate Discussion Participation Scoring Guide](#)

Unit 2 >> Time Value of Money

Introduction

In Unit 2, you will learn why a dollar received today is worth more than the dollar received tomorrow, learn the difference between compounding and discounting, and learn about annuities and amortization of loans. You will also learn to use a financial calculator or Excel spreadsheet to solve time value of money problems.

Learning Activities

u02s1 - Studies

Readings

Use your Cornett, Adair, and Nofsinger text, *M: Finance*, to complete the following:

- Read Chapter 4, "Time Value of Money 1: Analyzing Single Cash Flows," pages 89–114.
- Read Chapter 5, "Time Value of Money 2: Analyzing Annuity Cash Flows," pages 115–146.

These two chapters lay the foundation for mathematical finance, specifically dealing with time value of money concepts.

Multimedia

- Click [Time Value of Money: Part 1. The Big Picture](#) to view this presentation.
- Click [Time Value of Money: Part 2. A Case Study at Bank One](#) to view this presentation.

u02a1 - Time Value of Money: Single Cash Flows

Introduction

Time value of money (TVM) is the foundation of mathematical finance. This assignment is designed to show you how the TVM concept can be applied to corporate finance, as well as to personal finances. You will also learn various technical terms used in finance, such as discount rate, present value, and future value.

Instructions

Answer the following questions and complete the following problems, as applicable. Unless otherwise directed, assume annual compounding periods in computational problems.

You may solve the following problems algebraically, or you may use a financial calculator or Excel spreadsheet. If you choose to solve the problems algebraically, be sure to show your computations. If you use a financial calculator, show your input values. If you use an Excel spreadsheet, show your input values and formulas.

Note: In addition to your solution to each computational problem, you must show the supporting work leading to your solution to receive credit for your answer.

- Question 1:
 - Proficient-level: "List and describe the purpose of each part of a time line with an initial cash inflow and a future cash outflow" (Cornett et al., 2019, p. 107).
 - Distinguished-level: "Which cash flows should be negative and which positive?" (Cornett et al., 2019, p. 107).
- Question 2:
 - Proficient-level: "How are the present value and future value related?" (Cornett et al., 2019, p. 107).
 - Distinguished-level: Using time value of money concepts, explain why a dollar received today is worth more than a dollar received a year from now.
- Question 3:
 - Proficient-level: How are future values affected by changes in interest rates; that is, is there a direct (positive) or inverse effect on future values given a change in the interest rate?
 - Distinguished-level: "How are present values affected by changes in interest rates?" (Cornett et al., 2019, p. 107); that is, is there a direct (positive) or inverse effect on present values given a change in the interest rate?
- Question 4:
 - Proficient-level: "How much would be in your savings account in 11 years after depositing \$150 today, if the bank pays 7 percent per year?" (Cornett et al., 2019, p. 108).
 - Recalculate the savings account balance, using a 6 percent interest rate, and again, using an 8 percent interest rate.
 - Distinguished-level: Describe the relationship between changes in interest rates and the ensuing changes in future values.
- Question 5:
 - Proficient-level: "A deposit of \$350 earns the following interest rates: (a) 8 percent in the first year, (b) 6 percent in the second year, and (c) 5.5 percent in the third year. What would be the third year future value?" (Cornett, Adair, & Nofsinger, 2019, p. 108).
 - Distinguished-level: Explain why the future value is not calculated as the average of the annual interest rates.
- Question 6:

- Proficient-level: "Compute the present value of an \$850 payment made in 10 years when the discount rate is 12 percent" (Cornett et al., 2019, p. 108).
 - Recalculate the present value, using an 11-percent discount rate, and again, using a 13-percent discount rate.
- Distinguished-level: Describe the relationship between changes in interest rates and the ensuing changes in present values.
- Question 7:
 - Proficient-level: "What annual rate of return is earned on a \$5,000 investment when it grows to \$9,500 in five years?" (Cornett et al., 2019, p. 109).
 - Recalculate the rate of return, assuming the growth occurred in four years, and again, assuming the growth occurred in six years.
 - Distinguished-level: Describe the relationship between changes in the amount of time and the changes in annual rate of return.

Submit your completed assignment as an attachment in the assignment area. You may use either a Word document or an Excel spreadsheet for your work, but not both. Prior to submitting your assignment, review the Time Value of Money: Single Cash Flows Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

- Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u02a2 - Time Value of Money: Annuity Cash Flows

Introduction

In the previous assignment, you learned about the TVM concept as applied to single cash flow. However, in real life you come across financial applications that require multiple or annuity cash flows. In this assignment, you will apply the TVM concept to annuity cash flows; for example, how to amortize a mortgage or car loan.

Instructions

Answer the following questions and complete the following problems, as applicable. Unless otherwise directed, assume annual compounding periods in computational problems.

You may solve the following problems algebraically, or you may use a financial calculator or Excel spreadsheet. If you choose to solve the problems algebraically, be sure to show your computations. If you use a financial calculator, show your input values. If you use an Excel spreadsheet, show your input values and formulas.

Note: In addition to your solution to each computational problem, you must show the supporting work leading to your solution to receive credit for your answer.

- Question 1:
 - Proficient-level: Given the same annual interest rate, would you rather have a savings account that paid interest compounded on a monthly basis, or one that compounded interest on an annual basis? Why?
 - Distinguished-level: Given the same annual interest rate, would a borrower prefer more frequent, or less frequent, compounding periods? Why?
- Question 2:
 - Proficient-level: What is an amortization schedule, and what are some of its uses?
 - Distinguished-level: Explain why more interest is incurred at the beginning of the amortization period than at the end of the amortization period.
- Question 3:
 - Proficient-level: "The interest on your home mortgage is tax deductible. Why are the early years of the mortgage more helpful in reducing taxes than in the later years?" (Cornett et al., 2019, p. 138).
 - Distinguished-level: Explain why the tax benefit of interest is even larger for longer-term loans?

- Question 4:
 - Proficient-level: What is the difference between an ordinary annuity and an annuity due?
 - Distinguished-level: Explain why the future value of an annuity due is greater than the future value of an ordinary annuity.
- Question 5:
 - Proficient-level: What is the future value of a \$1,000 annuity payment over five years if interest rates are 9 percent? (Cornett et al., 2016).
 - Recalculate the future value at 8 percent interest, and again, at 10 percent interest.
 - Distinguished-level: Describe the relationship between changes in interest rates and the ensuing changes in future values.
- Question 6:
 - Proficient-level: "What is the present value of a \$800 annuity payment over six years if interest rates are 10 percent?" (Cornett et al., 2019, p. 139).
 - Recalculate the present value at 9 percent interest, and again, at 11 percent interest.
 - Distinguished-level: Describe the relationship between changes in interest rates and the ensuing changes in present values.

Submit your completed assignment as an attachment in the assignment area. You may use either a Word document or an Excel spreadsheet for your work, but not both. Prior to submitting your assignment, review the Time Value of Money: Annuity Cash Flows Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2016). *M: Finance* (3rd ed.). New York, NY: McGraw-Hill.

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u02d1 - The Power—or Curse—of Compounding

Review the Discussion Participation Scoring Guide.

Chapter 4 in the *M: Finance* textbook, by Cornett, Adair, and Nofsinger, provides an introduction to the main concepts of the time value of money for a single cash flow amount. These concepts are important in finance because cash flows analyzed in most of finance occur at various periods of time, and adjustments to the cash flow's value need to be recognized. Review Chapter 4, with particular emphasis on the "Organizing Cash Flows" and "Future Value" sections of this chapter.

For this discussion post, answer the following questions:

1. Would you prefer to have \$100 today or \$100 one year from now? Why?
2. How can compounding build wealth over time?
3. How can compounding increase debt over time?
4. Based on your responses to Questions 2 and 3, how can compounding both build wealth and increase debt? Is compounding a power or a curse?

Response Guidelines

Read your peers' initial discussion posts and respond to at least two of them. Compare your post to those of your peers and note any differences. Explain why you agree or disagree with your peers' views and analyses. Your responses are expected to be substantive in nature and should reference the assigned readings or other professional literature, as applicable, to support your views.

Course Resources

Undergraduate Discussion Participation Scoring Guide

Unit 3 >> Valuing Stocks and Bonds

Introduction

In Unit 3, the emphasis is on calculating the value of bonds and common stocks. You will learn about the common features of all bonds and learn to differentiate among the types of bonds. The focus of the unit then shifts to the mathematics of bond valuation (bond valuation model using the time value of money concept). You will also learn about the factors that affect a bond's price and the relationship between changes in interest rates and bond prices.

In addition to learning about bonds, you will learn about the various components of stock returns, common stock valuation models (such as constant dividend growth and variable growth), the use of the price/earnings (P/E) ratio, and preferred stocks valuation.

Learning Activities

u03s1 - Studies

Readings

Use your Cornett, Adair, and Nofsinger text, *M: Finance*, to complete the following:

- Read Chapter 7, "Valuing Bonds," pages 199–232.
 - This chapter covers bond features and types of bonds, bond valuation, bond pricing, and how interest rates affect bond prices.
- Read Chapter 8, "Valuing Stocks," pages 233–260.
 - This chapter covers various components of stock returns and stock valuation.

Multimedia

- Click [Bonds](#) to view this presentation.
- Click [Going Public](#) to view this presentation.

u03a1 - Valuing Bonds

Introduction

In this assignment, you will learn about bonds and the financial terms used in bond markets. In addition, you will differentiate between discount and premium bonds, identify the factors that influence bond value, and learn how the TVM concept is used to price bonds.

Instructions

Answer the following questions and complete the following problems, as applicable.

You may solve the following problems algebraically, or you may use a financial calculator or Excel spreadsheet. If you choose to solve the problems algebraically, be sure to show your computations. If you use a financial calculator, show your input values. If you use an Excel spreadsheet, show your input values and formulas.

Note: In addition to your solution to each computational problem, you must show the supporting work leading to your solution to receive credit for your answer.

- Question 1:
 - Proficient-level: "What does a call provision [call feature] allow [bond] issuers to do, and why would they do it?" (Cornett et al., 2019, p. 225).
 - Distinguished-level: State what additional compensation is paid, in addition to the bond principal, when a bond is called.
- Question 2:
 - Proficient-level: "Provide the definitions of a discount bond and premium bond. Give examples" (Cornett et al., 2019, p. 225).
 - Distinguished-level: Explain why market interest changes are reflected in bond prices.
- Question 3:

- Proficient-level: Describe the differences in interest payments and bond prices between a 6 percent coupon bond and a zero coupon bond (Cornett et al., 2016).
- Distinguished-level: Given a change in market interest rates, determine which of the two bonds (coupon paying bond or zero coupon bond) would remain closer to its par value.
- Question 4:
 - Proficient-level: Calculate the price of a zero coupon bond that matures in 20 years if the market interest rate is 4 percent (Cornett et al., 2016).
 - Assume semi-annual compounding.
 - Distinguished-level: State why zero coupon bonds are sold at steep discounts.
- Question 5:
 - Proficient-level: Compute the price of a 3.8 percent coupon bond with 18 years left to maturity and a market interest rate of 7 percent (Cornett et al., 2016).
 - Assume interest payments are paid semi-annually, and solve using semi-annual compounding.
 - Distinguished-level: Explain why the bond is either a discount bond or a premium bond.
- Question 6:
 - Proficient-level: A 6.50 percent coupon bond with 18 years left to maturity is offered for sale at \$1,035.25. What yield to maturity [interest rate] is the bond offering? (Cornett et al., 2016).
 - Assume interest payments are paid semi-annually, and solve using semi-annual compounding.
 - Distinguished-level: Explain what effect a decrease in the offered sales price would have on the yield to maturity.

Submit your completed assignment as an attachment in the assignment area. You may use either a Word document or an Excel spreadsheet for your work, but not both. Before submitting your assignment, review the Valuing Bonds Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2016). *M: Finance* (3rd ed.). New York, NY: McGraw-Hill.

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u03a2 - Valuing Stocks

Introduction

Companies can raise money through common stocks. Investors buy stocks and get the benefits of ownership of a firm. How to price stocks is the main objective of this assignment, in which you will learn about the differences between common and preferred stocks, the different stock valuation models, and the major stock market indexes.

Instructions

Answer the following questions and complete the following problems, as applicable:

You may solve the following problems algebraically, or you may use a financial calculator or Excel spreadsheet. If you choose to solve the problems algebraically, be sure to show your computations. If you use a financial calculator, show your input values. If you use an Excel spreadsheet, show your input values and formulas.

Note: In addition to your solution to each computational problem, you must show the supporting work leading to your solution to receive credit for your answer.

- Question 1:
 - Proficient-level: "As owners,, what rights and what advantages shareholders obtain?" (Cornett et al., 2019, p. 255).

- Distinguished-level: Describe the disadvantages to owning stock.
- Question 2:
 - Proficient-level: "Why might the Standard and Poor's 500 Index be a better measure of stock market performance than the Dow Jones Industrial Average?" (Cornett et al., 2019, p. 255).
 - Distinguished-level: Explain how the Dow Jones Industrial Average is more popular than the Standard and Poor's 500.
- Question 3:
 - Proficient-level: "What are the differences between common stock and preferred stock?" (Cornett et al., 2019, p. 255).
 - Distinguished-level: Describe the similarities between common stock and preferred stock.
- Question 4:
 - Proficient-level: "On March 5, 2013, the Dow Jones Industrial Average set a new high. The index closed at 14,253.77, which was up 125.95 that day. What was the return (in percent) of the stock market that day?" (Cornett et al., 2019, p. 256).
 - Distinguished-level: Identify the three most recognized U.S. market indexes.
- Question 5:
 - Proficient-level: "Your discount brokerage firm charges \$9.50 per stock trade. How much money do you need to buy 300 shares of Time Warner, Inc. (TWX), which trades at 22.62?" (Cornett et al., 2019, p. 256).
 - Distinguished-level: Based on the amount of commission paid, state whether a traditional full-service broker or a discount broker is being used.
- Question 6:
 - Proficient-level: "Financial analysts forecast Safeco Corporation (SAF) growth for the future to be a constant 8 percent. Safeco's recent dividend was \$0.88. What is the value of Safeco stock when the required return is 12 percent?" (Cornett et al., 2019, p. 257).
 - Distinguished-level: Recalculate the value of stock, assuming a 1 percent increase in the growth rate.
- Question 7:
 - Proficient-level: "A preferred stock from Duquesne Light Company (DQUPRA) pays \$3.55 in annual dividends. If the required return on the preferred stock is 6.7 percent, what is the value of the stock?" (Cornett et al., 2019, p. 257).
 - Distinguished-level: Explain why the growth rate of preferred stock is 0%.
- Question 8:
 - Proficient-level: "Ultra Petroleum (UPL) has earnings per share of \$1.56 and a P/E ratio of 32.48. What's the stock price?" (Cornett et al., 2019, p. 257).
 - Distinguished-level: Explain how the P/E model computes what is referred to as the stock's relative value.

Submit your completed assignment as an attachment in the assignment area. You may use either a Word document or an Excel spreadsheet for your work, but not both. Prior to submitting your assignment, review the Valuing Stocks Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u03d1 - Bonds Are Big

Review the Discussion Participation Scoring Guide.

Chapter 7 in the *M: Finance* textbook, by Cornett, Adair, and Nofsinger, provides an introduction to the main concepts of bonds and bond valuations. Bond concepts are important in finance, because the bond market is vital to finance and actually comprises a larger market than does the stock market. Review Chapter 7, with particular emphasis on the "Bond Market Overview" and "Credit Risk" sections.

For this discussion post, address the following:

- Describe the different reasons that the U.S. government, local governments, and corporations might issue bonds.

- One company has issued two bond classes. One issue is a mortgage bond and the other is a debenture. Which issue will have a higher bond rating, and which issue will offer a higher yield? Why?
- If you were purchasing bonds, would you prefer debentures or mortgage bonds? Why?

Response Guidelines

Read your peers' initial discussion posts and respond to at least two of them. Compare your post to those of your peers and note any differences. Explain why you agree or disagree with your peers' views and analyses. Your responses are expected to be substantive in nature and should reference the assigned readings or other professional literature, as applicable, to support your views.

Course Resources

Undergraduate Discussion Participation Scoring Guide

Unit 4 >> Risk and Return

Introduction

In Unit 4, the focus is on risk and return. In this unit, you will:

- Learn how to differentiate between stand-alone risk versus portfolio risk.
- Identify the sources of risk.
- Learn about the various measures of risk.
- Explain the theory of diversification.
- Contrast efficient and inefficient portfolios.
- Explain the implications of Capital Asset Pricing Model (CAPM) and beta of a stock or a portfolio.
- Learn about the Efficient Market Hypothesis (EMH).

Learning Activities

u04s1 - Studies

Readings

Use your Cornett, Adair, and Nofsinger text, *M: Finance*, to complete the following:

- Read Chapter 9, "Characterizing Risk and Return," pages 261–288.
- Read Chapter 10, "Estimating Risk and Return," pages 289–314.

Multimedia

- Click [Portfolio Management](#) to view this presentation.

u04a1 - Characterizing Risk and Return

Introduction

This assignment emphasizes the risk and return relationship. Every investment carries a different level of risk and return. In this assignment, you will learn about different measures of risk and how to compare risk with the return. In addition, you will differentiate between stand-alone risk and portfolio, or market, risk.

Instructions

Answer the following questions and complete the following problems, as applicable:

You may solve the following problems algebraically, or you may use a financial calculator or Excel spreadsheet. If you choose to solve the problems algebraically, be sure to show your computations. If you use a financial calculator, show your input values. If you use an Excel spreadsheet, show your input values and formulas.

Note: In addition to your solution to each computational problem, you must show the supporting work leading to your solution to receive credit for your answer.

- Question 1:
 - Proficient-level: "How do [Cornett, Adair, and Nofsinger] define risk in [the *M: Finance* textbook] and how [is it measured]?" (Cornett et al., 2019, p. 280).
 - Distinguished-level: Describe the risk relationship between stocks, bonds, and T-bills, using the standard deviation of returns as the measure of risk.
- Question 2:
 - Proficient-level: "What is the source of firm-specific risk? What is the source of market risk?" (Cornett et al., 2019, p. 280).
 - Distinguished-level: Identify which type of risk can be reduced through diversification.
- Question 3:
 - Proficient-level: "What does the coefficient of variation measure?" (Cornett et al., 2019, p. 280).
 - Distinguished-level: Explain why a lower coefficient of variation is better for an investor.
- Question 4:
 - Proficient-level: "FedEx Corp stock ended the previous year at \$103.39 per share. It paid a \$0.35 per share dividend last year. It ended last year at \$106.69. If you owned 200 shares of FedEx, what was your dollar return and percent return?" (Cornett et al., 2019, p. 281).
 - Distinguished-level: Explain why a percentage return can be more useful than a dollar return.
- Question 5:
 - Proficient-level: "Rank the following three stocks by their level of total risk, highest to lowest. Rail Haul has an average return of 12 percent and standard deviation of 25 percent. The average return and standard deviation of Idol Staff are 15 percent and 35 percent; and of Poker-R-U are 9 percent and 20 percent" (Cornett et al., 2019, p. 281).
 - Distinguished-level: Describe the components of the standard deviation formula.
- Question 6:
 - Proficient-level: "Rank the following three stocks by their risk-return relationship, best to worst. Rail Haul has an average return of 12 percent and standard deviation of 25 percent. The average return and standard deviation of Idol Staff are 15 percent and 35 percent; and of Poker-R-U are 9 percent and 20 percent" (Cornett et al., 2019, p. 281).
 - Before solving this problem, calculate the coefficient of variation. Show the coefficient of variation you have calculated for each stock.
 - Distinguished-level: Explain how the coefficient of variation acts as a trade-off between risk and return.
- Question 7:
 - Proficient-level: "Year-to-date, Oracle had earned a -1.34 percent return. During the same time period, Valero Energy earned 7.96 percent and McDonald's earned 0.88 percent. If you have a portfolio made up of 30 percent Oracle, 25 percent Valero Energy, and 45 percent McDonald's, what is your portfolio return?" (Cornett et al., 2019, p. 282).
 - Distinguished-level: Explain the role of weights in determining portfolio return.

Submit your completed assignment as an attachment in the assignment area. You may use either a Word document or an Excel spreadsheet for your work, but not both. Prior to submitting your assignment, review the Characterizing Risk and Return Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u04a2 - Estimating Risk and Return

Introduction

In this assignment, you will learn how to calculate risk and return, and how to interpret the results. The focus of this assignment is the Capital Asset Pricing Model (CAPM). After completing the assignment, you will be able to apply the CAPM to any stock or portfolio valuation, understand the concept of the beta of a stock, and understand a portfolio.

Instructions

Answer the following questions and complete the following problems, as applicable:

You may solve the following problems algebraically, or you may use a financial calculator or Excel spreadsheet. If you choose to solve the problems algebraically, be sure to show your computations. If you use a financial calculator, show your input values. If you use an Excel spreadsheet, show your input values and formulas.

Note: In addition to your solution to each computational problem, you must show the supporting work leading to your solution to receive credit for your answer.

- Question 1:
 - Proficient-level: "Why is expected return considered 'forward-looking'? What are the challenges for practitioners to utilize expected return?" (Cornett et al., 2019, p. 307).
 - Distinguished-level: Explain the role of probability distribution in determining expected return.
- Question 2:
 - Proficient-level: "Describe how different allocations between the risk-free security and the market portfolio can achieve any level of market risk desired" (Cornett et al., 2019, p. 308).
 - Distinguished-level: Provide examples of a portfolio for someone who is very risk averse and for someone who is less risk averse.
- Question 3:
 - Proficient-level: Refer to the table below to complete this question. "Compute the expected return given these three economic states, their likelihoods, and the potential returns" (Cornett et al., 2019, p. 308).
 - Distinguished-level: Recalculate the expected return under a set of changed economic probabilities.
- Question 4:
 - Proficient-level: "If the risk-free rate is 3 percent and the risk premium is 5 percent, what is the required return?" (Cornett et al., 2019, p. 309).
 - Distinguished-level: Identify which financial security's return is typically considered the risk-free rate.
- Question 5:
 - Proficient-level: "The average annual return on the S&P 500 Index from 1996 to 2005 was 10.8 percent. The average annual T-bill yield during the same period was 3.6 percent. What was the market risk premium during these 10 years?" (Cornett et al., 2019, p. 309).
 - Distinguished-level: Define, in your own words, the term, *market risk premium*.
- Question 6:
 - Proficient-level: "Hastings Entertainment has a beta of 0.65. If the market return is expected to be 11 percent and the risk-free rate is 4 percent, what is Hastings' required return?" (Cornett et al., 2019, p. 309).
 - Use the capital asset pricing model to calculate Hastings' required return.
 - Distinguished-level: Recalculate the required return with a change to beta, and explain the effect of a 1.0 increase in beta on the subsequent amount of change in the required return.
- Question 7:
 - Proficient-level: "You own \$10,000 of Olympic Steel stock that has a beta of 2.2. You also own \$7,000 of Rent-a-Center (beta = 1.5) and \$8,000 of Lincoln Educational (beta = 0.5). What is the beta of your portfolio?" (Cornett et al., 2019, p. 310).
 - Distinguished-level: State whether this portfolio has less risk, equal risk, or more risk, compared to the overall market.

Economic State	Probability	Return
Fast Growth	0.25	40%
Slow Growth	0.50	10%
Recession	0.25	-4%

Submit your completed assignment as an attachment in the assignment area. You may use either a Word document or an Excel spreadsheet for your work, but not both. Prior to submitting your assignment, review the Estimating Risk and Return Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u04d1 - Beautiful Beta

Review the Discussion Participation Scoring Guide.

Chapter 10 in the *M: Finance* textbook, by Cornett, Adair, and Nofsinger, discusses aspects of both risk and return. Risk and return can be seen as two sides of the same coin. In other words, risk and return are inexorably intertwined. Beta is one measure of market risk. Review Chapter 10, with particular emphasis on the "Market Risk" section of this chapter.

For this discussion post, address the following:

- In your own words, what is the meaning of the terms *beta* and *capital asset pricing model*?
- Select three stocks from the listing of the Dow Jones Industrial Average Stock Betas from Table 10.2 of the textbook. List these three stocks, along with their corresponding beta. Which one of the three stocks in your list is least risky? Why? Which one of the three stocks in your list is most risky? Why?
- If the beta of a portfolio of stocks was calculated to be 1.0, how should your portfolio react to changes in the overall market?
- If you assembled a mix of stocks for a financial portfolio for your personal use, would you prefer a low beta, a beta of 1.0, or a high beta? Why?

Response Guidelines

Read your peers' initial discussion posts and respond to at least two of them. Compare your post to those of your peers and note any differences. Explain why you agree or disagree with your peers' views and analyses. Your responses are expected to be substantive in nature and should reference the assigned readings or other professional literature, as applicable, to support your views.

Course Resources

[Undergraduate Discussion Participation Scoring Guide](#)

Unit 5 >> Capital Budgeting

Introduction

Unit 5 deals with capital budgeting, which is the process of evaluating the feasibility and selection of investment projects. In this unit, you will learn about basic capital budgeting techniques, such as payback, discounted payback, Net Present Value (NPV), Internal Rate of Return (IRR), Profitability Index (PI), and Modified Internal Rate of Return (MIRR).

Learning Activities

u05s1 - Studies

Readings

Use your Cornett, Adair, and Nofsinger text, *M: Finance*, to complete the following:

- Read Chapter 13, "Weighing Net Present Value and Other Capital Budgeting Criteria," pages 369–398.

Multimedia

- Click [Capital Budgeting](#) to view this presentation.

u05a1 - Capital Budgeting Measurement Criteria

Introduction

In this assignment, you will learn about the capital budgeting process, which is basically how companies evaluate their investment in various projects, such as buying new machinery or expanding into a new plant. In addition, you will learn about the following techniques used in capital budgeting:

- Net Present Value.
- Internal Rate of Return.
- Modified Internal Rate of Return.
- Payback Period.
- Discounted Payback Period.
- Profitability Index.

Instructions

Answer the following questions and complete the following problems, as applicable.

You may solve the following problems algebraically, or you may use a financial calculator or Excel spreadsheet. If you choose to solve the problems algebraically, be sure to show your computations. If you use a financial calculator, show your input values. If you use an Excel spreadsheet, show your input values and formulas.

Note: In addition to your solution to each computational problem, you must show the supporting work leading to your solution to receive credit for your answer.

- Question 1:
 - Proficient-level: Describe the Net Present Value (NPV) method for determining a capital budgeting project's desirability. What is the acceptance benchmark when using NPV?
 - Distinguished-level: Identify the NPV method's strengths and weaknesses.
- Question 2:
 - Proficient-level: What is the payback period statistic? What is the acceptance benchmark when using the payback period statistic?
 - Distinguished-level: Identify what problem of the Payback Period method is corrected by using the Discounted Payback Period method.
- Question 3:
 - Proficient-level: Describe the Internal Rate of Return (IRR) method for determining a capital budgeting project's desirability. What is the acceptance benchmark when using IRR?
 - Distinguished-level: Explain how the NPV and IRR methods are similar and how they are different.
- Question 4:
 - Proficient-level: Describe the Modified Internal Rate of Return (MIRR) method for determining a capital budgeting project's desirability. What are MIRR's strengths and weaknesses?
 - Distinguished-level: Explain the differences in the reinvestment rate assumption that distinguishes MIRR from IRR.
- Question 5:
 - Proficient-level: Compute the NPV statistic for Project Y and tell (advise) whether the firm should accept or reject the project with the cash flows shown in the chart if the appropriate cost of capital is 10 percent.
 - Distinguished-level: Explain how decreases in the cost of capital lead to an increase in the number of approved projects.

Project Y

Time	0	1	2	3	4
Cash Flow	- \$8,000	\$3,350	\$4,180	\$1,520	\$300

(Cornett et al., 2019, p. 393).

- Question 6:
 - Proficient: Compute the payback period statistic for Project X and recommend whether the firm should accept or reject the project with the cash flows shown in the chart if the maximum allowable payback is four years.
 - Distinguished-level: If the discounted payback period were computed, identify if it would be less than, equal to, or greater than the non-discounted payback period.

Project A

Time	0	1	2	3	4	5
Cash Flow	- \$1,450	\$250	\$380	\$620	\$1,000	\$100

(Cornett et al., 2019, p. 393).

Submit your completed assignment as an attachment in the assignment area. You may use either a Word document or an Excel spreadsheet for your work, but not both. Prior to submitting your assignment, review the Estimating Risk and Return Scoring Guide to ensure you have met all of the requirements and as a self-assessment of your work.

Note: Your instructor may also use the Writing Feedback Tool to provide feedback on your writing. In the tool, click the linked resources for feedback on your writing.

Reference

Cornett, M., Adair, T., & Nofsinger, J. (2019). *M: Finance* (4th ed.). New York, NY: McGraw-Hill.

Course Resources

[Writing Feedback Tool](#)

u05q1 - Final Quiz

Introduction

Now that you have completed the course, it is time to take this multiple-choice quiz, which gauges your understanding of the material presented in Units 1 through 5 and provides an opportunity for you to demonstrate your mastery of the following course competencies:

- Evaluate the global financial environment.
- Define finance terminology and its application within the business environment.
- Evaluate the financial health of an organization.

Instructions

Read the following instructions before taking the quiz:

- There is no time limit on the quiz.
- You must take and submit the quiz in this unit.
- After answering each question, submit your quiz to receive credit. The quiz is scored automatically, and you will receive feedback immediately. There are 100 total points possible. Each question is worth four points.
- You may access the quiz to view the questions; however, you cannot retake the quiz to change your grade. Once the grade is recorded, it cannot be changed.
- Because you are able to access and take the quiz only once, do not access the quiz until you are ready to complete it.

- When you access the quiz, read the Instructions and Troubleshooting page before you begin.

To start the quiz:

1. Click **Quizzes** or **Assessments** in the Course Tools menu of the courseroom.
2. If you have any issues with the quiz, contact your instructor.

u05d1 - The Wall Street Journal Article Review or Measuring Capital Budget Desirability

Review the Discussion Participation Scoring Guide.

For the Unit 5 Discussion, you have the option of responding to one of two topics, either Option 1: *The Wall Street Journal* Article Review, or Option 2: Measuring Capital Budget Desirability.

Option 1: *The Wall Street Journal* Article Review

You are now at the end of the course of the fundamentals of finance. For this discussion topic, select and address one of the topics covered in this course as it relates to an article found in *The Wall Street Journal* (WSJ).

Capella has secured full online access for you to *The Wall Street Journal*. This daily newspaper provides coverage of headlines and breaking news in the United States and around the world, with a focus on business issues that are pertinent to you. Review an article of your choosing from *The Wall Street Journal* and address the following:

- Access *The Wall Street Journal*. Directions for signing up to WSJ are included in the Courseroom in the "Getting Started" tab.
- Select an article of your choosing from the WSJ. The article should relate to stocks or bonds, ethics, risk, return, financial markets and institutions, time value of money concepts, or any other topic that you have covered in this course on the fundamentals of finance. In each daily publication will be numerous examples from which to choose.
- Provide the title and date of the article you have selected.
- Briefly, list and provide definitions of the various terms or concepts from this course that you have found in the article. A minimum of three definitions should be found.
- Your discussion post is not required to be of significant length, as there is value in your demonstration of having accessed *The Wall Street Journal* evidenced by your having matched several theoretical definitions or concepts to actual business occurrences.

Option 2: Measuring Capital Budget Desirability.

Chapter 13 of the *M:Finance* text discusses various criteria for calculating and analyzing the desirability of a capital budgeting project. This task is extremely important because these projects often entail very large cash outflows and may significantly determine the future profitability level of the firm. Review this chapter with particular emphasis on each of the six capital budgeting techniques reviewed and address the following:

- In this scenario, you are the chief financial executive of a firm who is analyzing a major project that entails a large initial cash outflow at time point zero and has future expected cash inflows occurring over the next 10-year period. If you could only select three of the techniques to analyze this project's acceptability, which three techniques would you select? Explain your selection.
- Because you only have three techniques available, explain why you would not select both IRR and MIRR. Which method is preferable, IRR or MIRR? Explain your response.
- Also, explain why you would not select both the regular payback together with the discounted payback. Which method is preferable, regular payback or discounted payback? Explain your response.
- When analyzing a project for desirability, which do you believe is more important: the technique to analyze investment acceptability, or the usage of the most accurate projections of cash flows? Explain your response.

Response Guidelines

Read your peers' initial discussion posts and respond to at least two of them. Compare your post to those of your peers and note any differences. Explain why you agree or disagree with your peers' views and analyses. Your responses are expected to be substantive in nature and should reference the assigned readings or other professional literature, as applicable, to support your views.

Course Resources

Undergraduate Discussion Participation Scoring Guide