Objective

When you buy a car, what determines your monthly payment? When your firm explains its 401K retirement program, what are your investment options and how do you decide between them? When you worry about saving for retirement, how much will you likely need to save? Gone are the days when a college graduate went to work for a major manufacturer, stayed for their entire career, and knew that the company would see after all of their retirement and health care needs. Instead, in today’s world, individuals are increasingly responsible for their own financial well-being. Thus, well-educated individuals have to understand how financial markets work.

Finance and Markets provides an in-depth introduction to the world of finance. You will learn how individuals interact with financial markets. Because most of you will end up working for private companies, you will also learn how companies interact with financial markets. Primary topics include:

- How do stock and bond markets work from the perspectives of both providers of capital (investors) and users of capital (firms, governments, etc.)?
- Time Value of Money: how do we calculate the value today of cash flows in the future?
- How is price determined for the standard financial claims (stocks, bonds) issued by firms and bought by investors?
- Why is diversification of investments so important and how does diversification generate an equilibrium relationship between risk and expected return for investments like equity?
- How do firms decide which projects to pursue?
- Introduction to “exotic” financial products such as options, swaps and futures.
- International finance.
- Basic tools for optimizing your personal financial health.

We will emphasize the underlying principles and theories that pertain to each of these areas while at the same time presenting the context in which they operate. What we observe in the “real” world of finance results from the interaction of underlying principles with the current financial environment. The financial environment is bound to change, however, basic principles will remain the same. Understanding these basic principles will prepare you to operate in the financial environment of tomorrow, whatever tomorrow brings! Our objective, therefore, will be to understand why things happen in finance as opposed to memorizing historical facts.

Prerequisites: ECON 224 (or 221 & 222), ACCT 222. If you have not completed these prerequisites, please contact the instructor.

Recorded Lectures:

This is an online class. Instead of attending traditional classroom lectures, you will view lecture modules posted on Blackboard. Each chapter will have several recorded lecture modules that vary in length from about 10 minutes to about 20 minutes. I have shifted to a new recording platform in 2017 that enables me to
embed extra credit questions in each lecture block. These occur at the end of almost every lecture block. I think there will be about 100 lecture blocks in total. You can take multiple attempts on every question so there is no reason to get any of them wrong. In total, extra credit questions can add 5% to your end of semester grade – if you answer all of them. If you answer half of them, they will add 2.5% to your end of semester grade. Note that the extra credit questions for each block must be answered by 11 pm on the Sunday when the associated homework is due and we close out a week. Thus, you have to earn your extra credit as you go through the semester. There is no ex-post opportunity to earn extra credit!

Required Materials

The textbook for the class is CFIN 4 by Besley and Brigham (Note there is a CFIN 5 too, but the Aplia homework system has not been updated for CFIN 5 yet.)

You will also need access to Aplia. This is an online and interactive homework system that accompanies the textbook (Aplia has modules for many finance and economics text books).

For the bookstore, we have ordered a bundle of the hardcopy text with a card that provides an access code for Aplia. The ISBN for the bundle at the USC bookstore is 978-1-305-12957-3.

You can also purchase the bundle of text plus Aplia directly from Cengage and from authorized sellers of Cengage products like Amazon.com. The ISBN for the bundle from Cengage is 978-1-305-24939-4. If you are going to get a hardcopy text, make sure that you purchase one that has Aplia bundled with it. Buying the two pieces separately is too costly. Also, there is bundle that has “LMS Integrated for Aplia” in the title. DON’T GET THIS ONE. I do not integrate Aplia into our Learning Management System (i.e. Blackboard).

The ISBN for Aplia alone is 978-1-285-43652-4. This gives you six months of access to Aplia. In addition, you have access to the online version of the text via Aplia. Thus, if you don’t want a traditional paper textbook, you can get everything that you need via the Aplia access.

The list price of the textbook on its own is about $70. The list price of Aplia with online access to the text is about $70 too. The bundle of both lists for about $83 (but I am not sure exactly what the bookstore will charge.) Because students use so many different alternatives to get texts, the bookstore will only order a fraction of the texts needed for a particular course. Thus, if we have 100 students registered, the bookstore might order 30 texts. If you want the convenience of purchasing the bundle from the bookstore (many students on financial aid or scholarship have to purchase from the bookstore) I suggest that you go early or purchase online early from the bookstore.

Finally, the textbook always comes bundled with access to Coursemate. I don’t use Coursemate. You need access to Aplia.
Access to Aplia.

When you purchase access to Aplia, you will be given a code which opens up Aplia access for you. When you register with Aplia, it is vital that you link Aplia to our individual course. There are two methods of doing this. The first is to access Aplia via http://login.cengagebrain.com/course/V5L3-FEFW-2C4V. The twelve letter code at the end of this internet address is the course key for our section of FINA 333. The second method of linking Aplia to our course is to input the course key (V5L3-FEFW-2C4V) directly in Aplia after you have initiated your Aplia account. Some of you probably already have access to an Aplia product via another course and already have an Aplia account. For you, entering the course code directly in Aplia is a viable option.

A financial calculator or a financial calculator app for a smartphone or tablet is strongly recommended. It should have the ability to do Time Value of Money (TVM) problems. The textbook demonstrates the use of the Texas Instruments BAII plus (about $29). Another alternative is the Hewlett Packard 17BII (about $89). Finally, the TI-83 graphing calculator has a finance module that will meet most of your needs.

Homework

Homework is done via the Publisher’s online Aplia System. Each chapter has homework questions that are due on either Wednesday evenings or Sunday evenings. In week 3 for example we will cover the Time Value of Money. This is chapter 4 in the text. The associated problem set is due by 11 pm on Sunday January 29. The grading is set up so that you have three chances at each particular type of question before the system does not accept additional tries. Note, however, that numeric questions will change slightly with each iteration so that you are not repeating the exact same question. Also, your grade for each question is a weighted average. If you miss the first try and succeed on the second, your grade is 50%. If you miss the first try, succeed on the second, and want to pad your grade, do it successfully again a third time. This makes your score 66%.

I will curve home works so that the median grade is 82%. With curve, homework grades will be capped at 100%. At the end of the semester I will calculate a straight average of homework grades, not weighted by the number of questions/points in each homework.

Each individual must submit their own entry, however, I encourage you to collaborate and work in groups. No late homeworks are accepted, EVER!

Project

In week 10 there is a retirement planning project that is separate from the regular home works. Details for this project are posted in Blackboard.

Exams

There will be three midterm exams and a comprehensive final. These exams will be online.

Grading

Exam I: 10%, Exam II: 10%, Exam III: 10%, Final: 20%, Homework 40%, Retirement Planning Project 10%. For each exam, I will add a set number of points to every score so that the median grade is an 82 (augmented scores above 100 will be capped at 100.) To calculate final grades I will take a weighted average of exam and homework grades and assign letter grades according to the following scale:

\[ F < 60 \leq D < 65 \leq C < 77 \leq C+ < 79.5 \leq B < 87 \leq B+ < 89.5 \leq A. \]

If history is any guide, a number of you will have good excuses for missing an exam and an even greater number will have lame excuses for missing an exam. In all cases, if you miss an exam, I will increase the weighting on your final from 20% to 30%. If you manage to miss two exams, then you forfeit 10% of your
grade. (Note that < 89.5 means that 89.49999 is not an A and that < 87 means that 86.99999 is not a B+.
When the university allows us to assign minus grades I will reconsider this policy.)

Extra Credit

The only opportunity for extra credit in this course is the extra credit questions embedded at the end of each
recorded lecture block. In total, they are worth up to 5% extra on your grade. You must, however, complete
each by the time that week’s lecture block closes out on Sunday evening. You cannot earn extra credit by
completing them late.

Learning Objectives:

Each student will be able to:

- Explain the distinction between primary and secondary markets.
- Understand how secondary markets like the NYSE and NASDAQ stock exchanges support the
  primary markets where entities like public corporations actually raise capital.
- Describe the basic characteristics of stocks and bonds including how they are issued and how they
  are traded.
- Explain how financial institutions like banks, insurance companies and pension funds intermediate
  between suppliers and users of capital.
- Calculate the present value and future value of a lump sum, annuity, perpetuity, and growing
  perpetuity.
- Calculate important Time Value of Money values such as implied interest rates, annualized
  interest rates, payment schedules, etc.
- Value a basic fixed-income security like a Treasury Bond using Time Value of Money principals.
- Value a share of stock using the Dividend Discount Model and using comparison firm ratios like
  the Price/Earnings Ratio.
- Describe the importance of diversification from both an intuitive and a statistical perspective.
- Understand the distinction between systematic and non-systematic risk.
- Explain how the restrictive assumptions of the Capital Asset Pricing Model lead to an equilibrium
  relationship between relative exposure to systematic risk and the expected return of a risky
  security like corporate equity.
- Calculate a firm’s cost of capital.
- Estimate the free cash flows of an investment project using basic accounting information.
- Calculate a project’s Net Present Value and Internal Rate of Return.
- Understand how basic derivative securities like Futures, Options, and Swaps operate.
- Understand how basic derivative securities are used to manage risk.
- Describe the factors that affect currency exchange rates such as inflation expectations and interest
  rate differentials.
- Write a feasible plan for saving and investing for life’s major events.

Academic Honesty

University of South Carolina Honor Code:

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly
to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic
program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor
Code shall be subject to discipline.

The Honor Code is intended to prohibit all forms of academic dishonesty and should be interpreted broadly
to carry out that purpose. The following examples illustrate conduct that violates this Honor Code, but this
list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code:
1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.
2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.
3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.
4. Use of another person’s work or ideas without proper acknowledgment of source.
5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).
6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.
7. Conduct intended to interfere with an instructor’s ability to evaluate accurately a student’s competency or performance in an academic program.

Whenever a student is uncertain as to whether conduct would violate this Honor Code, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor of record prior to engaging in such conduct.

For more information about academic integrity issues, go to the following website:

http://www.sc.edu/academicintegrity/

**Undergraduate Code of Conduct**

The Darla Moore School of Business is recognized globally for educating students who are prepared to become responsible business and civic leaders. An effective learning environment where students and faculty value integrity, professionalism and diligence is foundational to this mission. Consistent with these values, the Student Leadership Council and the faculty of the Darla Moore School of Business expect students to:

- spend a minimum of two hours outside of class studying for each hour of classroom time;
- exhibit classroom behavior that is respectful to faculty and fellow students;
- refrain from the use of phones and other electronic equipment during class, unless permitted by the instructor;
- arrive at class on time, actively participate in class, and not leave class early;
- keep up with assigned readings and complete assignments on time;
- contribute fully to team assignments;
- respect the university’s staff and be responsible stewards of its facilities; and
- abide by the University of South Carolina Honor Code Approved by the Undergraduate Student Leadership Council and the faculty of the Darla Moore School of Business

**Schedule** (Note, there is a lot due in the first week. If we work hard now, then the week before Spring Break is more relaxed and we can get the 2nd exam in before the WF date.)

Week 1: Monday Jan 9 – Sunday Jan 15: Introduction to Finance
- Introduction Recorded Lectures
- Text Chapters 1 & 3
- Three Aplia homeworks: The first is a simple one on how to use Aplia. The other two are for the text chapters 1 & 3. All are due by 11 pm Sunday Jan 15. Make sure your Aplia account is up and working before the weekend!
There are several practice problem sets on Aplia that go over how to use various financial calculators and one on the basic of Excel. I recommend that you do the one for your particular calculator and complete the Excel practice problem set. These are stashed in the week 16 folder in Aplia so that they don’t clutter up week 1 too much.

Week 2: Monday Jan 16 – Sunday Jan 22 – Financial Statement Analysis (Jan 17 is the W drop date)
- Financial Statement and Financial Statement Analysis Recorded Lectures
- Text Chapter 2
- Aplia homework for text chapter 2 due by 11 pm Sunday Jan 22.

Week 3: Monday Jan 23 – Sunday Jan 29: Time Value of Money
- Time Value of Money Recorded Lectures
- Text Chapter 4
- Quiz for text chapter 4 due by 11 pm Sunday Jan 29.

Week 4: Monday Jan 30 – Sunday Feb 05: Interest Rates + Exam 1 (on Blackboard) due by 11 pm Wednesday Feb 1. Covers weeks 1-3.
- Interest Rates and the Yield Curve Recorded Lectures
- Text Chapter 5
- Aplia homework for text chapter 5 due by 11 pm Sunday Feb 05.

Week 5: Monday Feb 06 – Sunday Feb 12: Bonds and Bond Valuation
- Bonds and Bond Valuation Recorded Lectures
- Text Chapter 6
- Aplia homework for text chapter 6 due by 11 pm Sunday Feb 12

Week 6: Monday Feb 13 – Sunday Feb 19: Equity Valuation and Payout Policy
- Equity and Payout Policy Recorded Lectures
- Text Chapters 7 & 13
- Aplia homeworks for Chapters 7 & 13 due by 11 pm Sunday Feb 19.

Week 7: Monday Feb 20 – Sunday Feb 26: Risk and Return
- Risk and Return Recorded Lectures
- Text Chapter 8
- Aplia homework for text chapter 8 due by 11 pm Sunday Feb 26

Week 8: Monday Feb 27 – Sunday Mar 05: + Exam 2 (on Blackboard) due by 11 pm Wednesday Mar 01. Covers weeks 4-7.
- March 02 is the WF drop date.

Week 9: Monday Mar 06 – Sunday Mar 12: Spring Break!
- Have fun but be safe.

Week 10: Monday Mar 13 – Sunday Mar 19: Personal Investing
- Personal Investing Recorded Lectures
- Reading on Blackboard
- Financial Planning Project (find it on Blackboard) due by 11 pm Sunday Mar 19

Week 11: Monday Mar 20 – Sunday Mar 26: Capital Budgeting Techniques
- Capital Budgeting Techniques Recorded Lectures
- Text Chapter 9
- Aplia homework for text chapters 9 due by 11 pm Sunday Mar 26.

Week 12: Monday Mar 27 – Sunday Apr 02: Capital Budgeting Cash Flows
- Capital Budgeting Cash Flows Recorded Lectures
- Text Chapter 10
- Aplia homework for text chapter 10 due by 11 pm Sunday Apr 02.
Week 13: **Monday Apr 03 – Sunday Apr 09: Cost of Capital**  
- Cost of Capital Recorded Lectures  
- Text Chapter 11  
- Aplia homework for text chapter 11 due by 11 pm Sunday Apr 09

Week 14: **Monday Apr 10 – Sunday Apr 16: Capital Structure + Exam 3 (on Blackboard) due by 11 pm Wednesday Apr 12**  
- Capital Structure Recorded Lectures  
- Text Chapter 12  
- Aplia homework for text chapter 12 due by 11 pm Sunday Apr 16

Week 15: **Monday Apr 17- Sunday Apr 23: Derivative Securities**  
- Recorded Lectures on Derivative Securities  
- Readings provided on Blackboard  
No homework but be sure to look at practice questions on Blackboard.

Week 16: **Monday Apr 24 – Monday Apr 24: No Scheduled Activities.**

Exam Week: **Apr 26 – May 03**  
Exam can be completed at any time during exam week as long as it is done by noon on Wednesday May 03.