

**ROTMAN SCHOOL OF MANAGEMENT
UNIVERSITY OF TORONTO
105 ST. GEORGE ST.
TORONTO, ONT.
CANADA M5S 3E6**



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2301: FINANCIAL MANAGEMENT

Office hours

Tuesday 3:00-6:00 or by appointment

Course Objective

This course consists of two modules, the first is working capital management and the second capital budgeting. An understanding of both modules is needed for managers within non-financial corporations, since most day to day finance problems revolve around these topics. Additionally, an understanding of working capital management is essential for those entering a corporate lending environment or those interested in advising corporates. Capital budgeting is particularly useful for those interested in strategic decisions made by the firm.

2301 is the finance course designated for those who need more finance than that contained in MGT1330, as well as a core course for those interested in a corporate finance/investment banking specialisation. By the conclusion of the course, successful students will be familiar with the essential skills required to manage corporate assets. Although 2300 is not a prerequisite, an understanding of basic financing techniques is assumed.

Achieving the Objective.

The theoretical framework of the course will be covered in a conventional lecture format that will comprise about 40% of class time. The lectures will be based on the set of readings contained in the course package, some but by no means all are related to the case material. The practise of financial management will be illustrated by analysing a series of cases that mostly come from the Harvard Casebook: Kester et al, Case Problems in Finance, (11th edition) Irwin, 1997.

Textbook

There is no required textbook. It is the instructor's opinion that all of the accepted graduate finance textbooks are pretty much of the same quality. As a result, there is

usually more to be gained from a deeper reading of an existing text, than by switching to a new one. Particularly good finance textbooks are R. Brealey, S. Myers, G. Sick and R. Giammarino, Principles of Corporate Finance, (3rd Canadian Edition), McGraw Hill Ryerson, and E Brigham, A. Kahl, W. Rentz and Gapenski Canadian Financial Management (3rd Edition), Holt Rinehart and Winston 1994.

There has been some concern that the textbook used in 1330, P. Lusztig et al, Managerial Finance in a Canadian Setting, J. Wiley 1994 may not have enough depth to follow through on some of the topics discussed in class. Those who were not satisfied with Lusztig et al are encouraged to buy one of the above two books.

Case Material and Preparation.

The class will be allocated into eight groups during the first two sessions. Each group will then be allocated to one of two streams for the purposes of handing in formal case analyses. For example, if an individual is in a group assigned to stream A, their responsibility will consist of the following:

- (1) hand in a formal group case analysis, not to exceed six standard double spaced (12 point font) pages, for one of the four cases in stream A and present a solution to it in class. The case presentation should last around twenty minutes, depending on the case chosen.
- (2) hand in a similar type of solution to the three other cases in their stream for grading,
- (3) be prepared to discuss fully the four cases in stream B, as well as the other “unassigned” cases.
- (4) participate fully in class discussion
- (5) do well on the final exam!

The two case streams are:

A	B
Toy World	Surecut Shears
Allen Distribution	O.M Scott
Super Project	Arundel Partners
Southport	Midwest Communication

Nearly all finance cases are amenable to analysis by using spreadsheets. Competent use of Lotus 123 and Excel is a skill that this course can help to develop. However, mindless repetitive analysis and the preparation of neat graphical material is no substitute for

clear thinking.

Evaluation.

Class Participation	10%
Case Presentation & Analysis	40%
Final Exam	50%

Note that the final exam will be comprehensive. In the past, some of the questions have come directly from the types of analysis covered in the cases. As a result, full analysis of all the cases is strongly recommended.

2301: Financial Management Course Outline

Week 1 Cash Flow Cycle Within the Firm

Readings L&S Chapter 22

“How to Go Broke... While Making a Profit,” Business Week,
August 28, 1956.

R. Gamble, “Working Capital: Key to Cash Flow that Treasury
Rarely Manges,” Corporate cash Flow, March 1996.

Week 2 Cash Budgeting

Pearson Hunt, “Funds Position: Keystone in Financial Planning,”
Harvard Business Review, May-June 1975.

Case: Hampton Machine Tool

Week 3 Forecasting Funds Requirements

L&S Chapter 26

Case: Clarkson Lumber

Week 4 “Predictable” Sales Variations

Cases: Toy World Inc
 Surecut Shears

Week 5 Managing Banks

L&S Chapter 23

Case: Advanced Medical Devices

Week 6

Managing Working Capital

S. Mian and C. Smith, "Extending Trade Credit and Financing Receivables," Journal of Applied Corporate Finance, (Fall 1996)

C. Pavel, "Securitisation," Economic Perspectives, FRB Chicago, July-August 1986.

Case:

Allen Distribution
O.M. Scott

Week 7

Capital Budgeting Frameworks

L&S Chapter 6

K. Smith, "Post-auditing Capital Investments," Financial Practice and Education 4-1, (Spring/Summer 1994),

Week 8

Replacement Decision

L. Booth, "Making Capital Budgeting Decisions in Multinational Corporations," Managerial Finance 22-1, (Spring 1996),

Case:

Pressco Inc (1985)

Week 9

Relevant Cash Flows

Case:

The Super Project

Week 10

Handling Uncertainty

L&S Chapter 7 & 8

L. Trigeorgis, "Real Options and Interactions with Financial Flexibility," Financial Management 22-3, Autumn 1993.

A. Dixit and R. Pindyk, "The Options Approach to Capital Investment," Harvard Business Review, (May-June 1995).

Week 11 “Strategic” Capital Budgeting

Cases: Arundel Partners

Week 12 Financing & Investment Interactions

Case: Southport Minerals

Week 13 Lease Versus Buy Decision

J. Franks and S. Hodges, "Valuation of Financial Lease Contracts",
Journal of Finance, (May 1978).

L&S Chapter 21

Case: Midwest Communication