

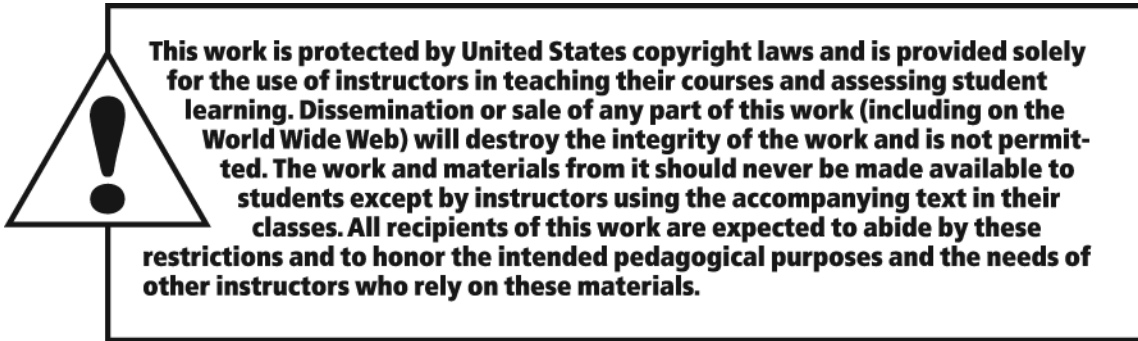
# Instructor's Resource Guide for



Dr. Michael Casey

University of Central Arkansas





Director of Portfolio Management: Adrienne D'Ambrosio  
Senior Portfolio Manager: Kate Fernandes  
Editorial Assistant: Kathryn Brightney  
Content Producer: Mignon Tucker

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## Introduction

This Instructors' Resource Manual is meant to be a tool for instructors, to make their teaching less stressful and more effective. The tools and activities contained here are comprehensive in type and scope, and we hope you find them useful as you progress through *Corporate Finance Online* during your semester.

This Instructors' Manual has several tools, each geared toward mastery of the learning objectives in their respective sections:

- **[Pre-Test](#)** These Pre-Tests come at the beginning of every chapter; they are 10 questions long, all multiple choice, focusing on terms and background for the topic covered in that chapter. They will help instructors to ascertain students' incoming level of knowledge, so teaching may be focused on areas where students need more instruction.
- **[Overview](#)** Short paragraphs at the beginning of each chapter review learning objectives and main concepts and explain the context of the topics covered in the finance world.
- **[Teaching Tools](#)** There are many tools in CFO: videos, Excel templates, Explain it! and Solution Tools. The Teaching Tools section identifies each tool in the chapter, with a brief explanation of its content and purpose.
- **[Assessment Tools](#)** CFO also contains many built-in assessments. Assessment Tools identifies the Self-Tests, Practice, Homework, and Quiz assignments by section, so instructors may use and evaluate them as needed.
- **[Class Application Activities](#)** These applied classroom activities help instructors vary and guide class time. They include Q&A, teaching notes, and a quick summary of the major concept discussed.
- **[Post-Test](#)** The Post-Test at the end of each chapter reviews the main concepts and equations from each chapter. It is similar in structure to the Pre-Test, being multiple-choice, but the questions are more detailed and aimed at assessing student mastery.

You will find the tools listed in this order in each chapter of the Instructors' Manual; hyperlinks in the Table of Contents make them easy to reach.

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# CHAPTER 1: INTRODUCTION TO FINANCE

## I. PRE-TEST

These 10 questions can be used to determine the students' understanding of the skills and information covered in the chapter. Use the results of the class pre-test to focus your chapter lecture on the concepts that students have not yet grasped.

LO1 – Understand the Features of CFO

1. In the context of this text, CFO is an acronym for
  - a. Certified Financial Obligations.
  - b. Chief Financial Officer.
  - c. **Corporate Finance Online.**
  - d. Credited Fiscal Offering.

LO2 – Understand the Four Facets of Finance: the role of the financial manager, careers in finance, personal finance, and academic finance

2. The field of finance covers all of the following areas except
  - a. corporate finance.
  - b. financial markets.
  - c. investing.
  - d. **corporate finance, financial markets, and investing are all topics covered in finance.**

LO3 – Understand the Function of the Financial System

3. The primary function of the financial system is to
  - a. **transfer money from suppliers to users.**
  - b. help the government borrow money.
  - c. identify areas of economic strength.
  - d. ensure Social Security remains solvent.

LO4 – Distinguish between Money and Capital Markets

4. Capital market securities include
  - a. T-bills.
  - b. banker's acceptances.
  - c. **common stocks.**
  - d. commercial paper.

LO5 – Learn the Difference between Primary and Secondary Markets

5. When a firm issues stock to the public for the very first time it is known as
  - a. seasoned equity issue.
  - b. **initial public offering.**
  - c. underwriter's issue.
  - d. over-the-counter offering.

LO6 – Learn about the Structure and Governance of Corporations

6. The most common form of business organization in the United States is the
  - a. corporation.
  - b. sole proprietorship.**
  - c. partnership.
  - d. limited liability company.
7. Most of the revenue generated in the United States by businesses comes from
  - a. corporations.**
  - b. sole proprietorships.
  - c. partnerships.
  - d. corporations, sole proprietorships, and partnerships all generate approximately equal shares of revenue annually.

LO7 – Learn Six Important Ideas in Finance

8. One of the key concepts in finance is that
  - a. the SEC enforces the law of one price.
  - b. the time value of money.**
  - c. people act irrationally.
  - d. markets are inefficient.
9. In order to earn higher returns, you must
  - a. invest in emerging markets
  - b. buy AAA rated bonds
  - c. invest only cash
  - d. assume a higher level of risk**
10. If the price of an asset currently reflects the asset's true value, the market is said to be
  - a. efficient**
  - b. transactional
  - c. arbitrated
  - d. riskless

## II. Chapter 1: OVERVIEW

This chapter introduces the features of CFO so that students can take full advantage of all the resources available in this text. Spend some time making sure that students understand how to use each feature. In addition, this chapter observes that the field of finance has a number of applications in academics, business, and your personal life, and all of those areas present several career paths where students can find great jobs. The chapter also introduces the financial system, corporate governance issues, the concept of risk and return, the time value of money, and other key financial topics with every day applications. Students will learn the difference between money and capital markets and also between primary and secondary markets.

LO1 – Understand the Features of CFO

LO2 – Understand the Four Facets of Finance: the role of the financial manager, careers in finance, personal finance, and academic finance

LO3 – Understand the Function of the Financial System

LO4 – Distinguish between Money and Capital Markets

LO5 – Learn the Difference between Primary and Secondary Markets

LO6 – Learn about the Structure and Governance of Corporations

LO7 – Learn Six Important Ideas in Finance

### III. TEACHING TOOLS

The following list summarizes the concepts covered in the chapter videos and solution tools.

**1.1.1 Explain It – Features of CFO - LO1:** This video explains the features of CFO using Explain It videos, Interactive graphs, and Solution Tools that will be utilized throughout the text to provide greater detail on certain concepts and problems.

**1.2.1 Explain It – Four Facets of Finance - LO2:** This video shows the student the four different perspectives through which you can view the field of finance: academic finance, business finance, careers in finance, and personal finance.

**1.5.1 Explain It – Initial Public Offerings – LO5:** This text file provides some specifics on a recent IPO and also some information on IPO investing.

**1.5.2 Explain it – Dealer Markets Part 1 – LO5:** This video shows how a dealer buys and sells shares of stock and makes a profit on the spread (the difference in the bid and ask prices).

**1.5.2 Explain it – Dealer Markets Part 2 – LO5:** This video shows how buying and selling shares of stock (demand and supply) impacts price determination in the market.

**1.6.2 Explain it – Management’s Fiduciary Duty – LO6:** This text file provides two examples where managers placed the interest of one stakeholder group over shareholders and the stock prices responded negatively.

**1.6.2 Explain it – Principal-Agent Problem: Contractual Remedies – LO6:** This video illustrates the classic principal agent problem using Tyco’s CEO Dennis Kozlowski’s exorbitant corporate spending practices.

**1.6.2 Explain it – Principal-Agent Problem: Government Regulation – LO6:** This text box directs students to conduct an Internet search for information on Tyco, Enron, or WorldCom, since each case represents a clear example of an agency problem.

**1.7.2 Explain it – Bernie Madoff and the Risk/Return Tradeoff – LO7:** This text box provides some historical information on Bernie Madoff and his Ponzi scheme and how it relates to risk and return.

**1.7.3 Explain it – Efficiency, Arbitrage, and Law of One Price – LO7:** This video provides a humorous introduction to the concept of market efficiency.

## IV. ASSESSMENT TOOLS

Here is a listing (by page number) and description of all the assessments provided in this chapter.

Page Number	Description
1.2.1	Self-Test Question 1
1.2.1	Self-Test Question 2
1.3.1	Self-Test Question 3
1.3.1	Self-Test Question 4
1.4.1	Self-Test Question 5
1.4.1	Self-Test Question 6
1.4.2	Self-Test Question 7
1.5.1	Self-Test Question 8
1.5.2	Self-Test Question 9
1.5.2	Self-Test Question 10
1.6.1	Self-Test Question 11
1.6.2	Self-Test Question 12
1.7.6	Self-Test Question 13
1.7.6	Self-Test Question 14
	Practice Section 1.2
	Practice Section 1.3
	Practice Section 1.4
	Practice Section 1.5
	Chapter 1 Homework
	Chapter 1 Quiz

## V. CLASS APPLICATION ACTIVITIES

These activities, complete with solutions, provide opportunities to reinforce (either in class or in small groups) students' ability to apply chapter concepts in business contexts.

### CLASS APPLICATION ACTIVITIES 1.1

Title: Occupational Outlook Handbook and Finance Careers

LO2 – Understand the Four Facets of Finance: the role of the financial manager, careers in finance, personal finance, and academic finance

Numerous career options are available to finance graduates. Students can begin careers in government, the non-profit sector, corporate finance, banking, investments and wealth management, education and other fields. However, it is useful to know the expected salaries and the projected job demand for a particular skill set prior to spending years acquiring the expertise to work in that field. One of the ways you can learn more about a particular career is to research that career in the *Occupational Outlook Handbook* published by the Bureau of Labor Statistics. Go to the following website:

<http://www.bls.gov/ooh/>

Now look under the heading "Occupation Groups" and click on the link "Business and Financial." Scroll down through the list of job titles and select one that interests you and read all the information posted about that job.

Questions to pose:

1. What is the education required for an entry-level position? Does the job require any licensure requirements?

**Answer: It varies according to the job selected.**

2. What is the expected starting salary for this position?

**Answer: It varies according to the job selected.**

3. What is the projected job growth in this field for the next several years?

**Answer: It varies according to the job selected.**

**Time on task:** This exercise can take between 15 and 30 minutes, depending on how long it takes to find and summarize the findings.

**Teaching Notes:** This activity pushes students to begin thinking in terms of the market demand for a particular skill set. You can extend this activity by requiring groups to make presentations on two or three jobs or have individuals draft a one-page report about a specific job.



## CLASS APPLICATION ACTIVITIES 1.2

Title: Nasdaq IPOs

LO5 – Learn the Difference between Primary and Secondary Markets

An initial public offering (IPO) occurs when corporations sell equity capital to the public for the first time and become listed and publicly traded on an organized stock exchange. Sizes of the IPOs typically fall into the \$50 million to \$500 million range and are relatively unknown companies. Nasdaq tracks IPOs and maintains an extensive database on IPOs in the pipeline and recent IPOs. Go to the following website and then answer a few questions.

<http://www.nasdaq.com/markets/ipos/>

Questions to pose:

1. Look at the “Latest IPOs” and click on the link “View All Latest IPOs.” How many IPOs came out during that period? What was the size (offer amount) of the largest IPO? What was the size (offer amount) of the smallest? What was the smallest offer price? What was the largest offer price?

**Answer: Varies.**

2. Scroll down the page to the “IPO Performance” graph that shows the best and worst performers over the past six months. What company generated the best returns for investors? What company generated the worst returns for investor? Provide some background information on each firm and information on the returns generated.

**Answer: Varies.**

**Time on task:** This exercise can take between 15 and 30 minutes, depending on how long it takes to find and summarize the findings.

**Teaching Notes:** This activity allows students to learn about the IPO market at the time they are taking the class. You can ask dozens of questions about the material on this site and IPOs in general.

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## CLASS APPLICATION ACTIVITIES 1.3

Title: Charles Ponzi

LO6 – Learn about the Structure and Governance of Corporations

We’ve all heard of Ponzi schemes but how much do you know about Charles Ponzi? A particular type of financial fraud, Ponzi schemes were named after an Italian immigrant named Charles Ponzi who became famous for his fraudulent activities in the early 1900s. Go to your favorite Internet search engine and search for “Charles Ponzi” and then answer a few questions about Ponzi schemes and Charles Ponzi.

Questions to pose:

1. What is a Ponzi scheme?

**Answer: A Ponzi scheme promises investors high returns and then delivers those returns by paying existing investors with money flowing in from new investors. Ponzi schemes require a continuous inflow of new money to keep going.**

2. Look up some of the other famous financial con artists such as Bernie Madoff, Dona Branca and others. What do most of these schemes have in common?

**Answer: They all promise high returns and prey on human greed. A good rule of thumb is illustrated in the old saying, "If it sounds too good to be true, it probably is."**

**Time on task:** This exercise can take between 15 and 30 minutes depending on how long it takes to find and summarize the findings. You can extend this to a full class period or more if you have students do presentations on various con artists and their fraud.

**Teaching Notes:** This activity is a great example to use to teach students about risk and return and financial ethics. There are always people willing to separate you from your money. This is a great classroom debate and you can assign students various individuals to report on so that everyone reports on a different con artist.

#### **CLASS APPLICATION ACTIVITIES 1.4**

Title: Refund anticipation loans and the time value of money

LO7 – Learn Six Important Ideas in Finance

Refund anticipation loans (RALs) are available from a number of tax preparers and touted as a way to access your tax refund sooner. The tax preparer loans you an amount equal to your anticipated refund, minus interest charges and fees, and then has your refund directed to their account. In the following article, it states that in 2009 approximately 7 million taxpayers took advantage of RALs and paid more than \$650 million in interest and fees to receive their refund a few weeks early. Read the following article and then answer a few questions.

<http://www.aarp.org/money/taxes/info-03-2011/ask-sid-tax-refund-loans.html>

Questions to pose:

1. How do RALs relate to the time value of money?

**Answer: Individuals are obviously willing to accept a smaller sum today in lieu of a larger sum at some point in the future. This example illustrates the concept of the time value of money, or a dollar today is worth more than a dollar in the future.**

2. What makes this practice unethical according to some critics?

**Answer: The fees and interest charges can range from 50% to 500% per year if annualized. Charges this high are considered predatory lending practices and prey primarily on the poor.**

**Time on task:** This exercise can take between 5 and 15 minutes depending on how long it takes to find and summarize the findings and have a class discussion.

**Teaching Notes:** This activity is a great example of the time value of money and also allows you to introduce some ethical issues in finance. You can have a lengthy discussion about the morality of this practice.

## VI. POST-TEST

These 10 questions can be used to determine the students' understanding of the skills and information covered in this chapter, and in customizing your chapter lecture or exam review to the concepts that students had difficulty mastering

LO1 – Understand the Features of CFO

1. In Corporate Finance Online, you can find additional explanations and details on a particular topic by clicking on
  - a. Explore it icons.
  - b. Explain it icons.
  - c. Solution Tools icons.
  - d. **Explore it!, Explain it!, and Solution Tools all provide additional information about a topic.**

LO2 – Understand the Four Facets of Finance: the role of the financial manager, careers in finance, personal finance, and academic finance

2. Which of the following is not considered one of the broad perspectives through which you can view the field of finance?
  - a. **automotive finance**
  - b. academic finance
  - c. careers in finance
  - d. personal finance

LO3 – Understand the Function of the Financial System

3. One of the primary functions of the secondary market is
  - a. to provide firms with a place to sell initial equity.
  - b. **to provide investors with liquidity.**
  - c. to monitor illegal activity.
  - d. to function as a legal gambling mechanism.

LO4 – Distinguish between Money and Capital Markets

4. All of the following are money market securities except
  - a. **common stocks.**
  - b. commercial paper.
  - c. Fed funds.
  - d. Negotiable Certificates of Deposit.

LO5 – Learn the Difference between Primary and Secondary Markets

5. When an investor buys stock on the New York Stock Exchange it is a
  - a. primary market transaction.
  - b. secondary market transaction.**
  - c. money market transaction.
  - d. derivative security transaction.

LO6 – Learn about the Structure and Governance of Corporations

6. All except which of the following are advantages of incorporating?
  - a. Ownership is easy to transfer.
  - b. Corporations have an unlimited life.
  - c. Incorporating makes it easier to raise money.
  - d. Corporate profits are only taxed at the investor level.**
7. Which of the following pieces of legislation attempts to resolve the principal-agent problem that exists between shareholders and managers?
  - a. Congressional Accountability Act
  - b. Gramm-Rudman-Hollings Act
  - c. Sarbanes-Oxley Act**
  - d. Securities Exchange Commission Act

LO7 – Learn Six Important Ideas in Finance

8. According to the law of one price, if a stock listed on an international stock exchange is trading for \$45.50 a share,
  - a. it will sell for the same price the next day.
  - b. arbitrage will ensure it trades at the same price in other markets.**
  - c. it will always be available for sale at \$45.50 a share.
  - d. None of these options illustrate the law of one price.
9. If an investor buys gold contracts in London for \$1,595 an ounce and simultaneously sells it in New York for \$1,610 an ounce then the price of gold in London will
  - a. move lower.
  - b. move higher.**
  - c. remain stable.
  - d. always be \$1,595 an ounce.
10. Information asymmetry states that
  - a. everyone has access to the same information.
  - b. the Internet has leveled the playing field with regard to access to information.
  - c. all companies operate under the same economic assumptions.
  - d. information is not distributed evenly.**

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