

Financial Market Analysis for Lawyers

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Course Objective

The importance of well-functioning financial markets can not be overstated in a free market economic system. One can compare the role of financial markets to that of oil in an automobile engine. In essence, both are lubricants in the eco-systems they work in. Thus, to possess a solid understanding of the economy, one needs to understand the important role of finance and the financial markets. What is the role of the capital markets? How is capital formed? How is it allocated? How are companies valued? How is a company's cost of capital determined? These are the questions that we answer in *Financial Market Analysis for Lawyers*.

We have two aims in *Financial Market Analysis for Lawyers*. First, we introduce financial markets concepts from a macro perspective. Here, using readings from the Wall Street Journal, the Economist and Financial Times, we look at the role of the capital markets and types of products that are in the market today. Second, we learn financial analysis skills that businessmen and finance professionals use on a daily basis.

Our textbook is Finance, A. A. Groppelli, Ehsan Nikbakht, copyright 2000 by Barron's Educational Series, Inc.

Although not meant to be an in-depth business school finance class, this course nevertheless covers material from financial management, financial accounting, economics, and corporate finance. The course provides students with the basic tools that managers and finance professionals use to analyze financial data. After taking this course, students should be able: to understand the role of the financial markets; to analyze risk and return models; to understand a firm's capital budgeting process; to be familiar with financial statements and ratios; and to use of market multiple valuation frameworks.

The indicative schedule for the semester is outlined below.

Role of the Financial Markets (weeks 1 and 2)

Financial Markets Products (Equity, Debt, Derivatives) (weeks 3 and 4)

Time Value of Money (week 5)

Risk and Return (week 6)

Valuation Methods (week 7 and 8)

Capital Budgeting Review (week 9 and 10)

Cost of Capital (week 11)

Capital Structure (week 12)

Financial Statement Analysis and Ratios (week 13)

Role of the Financial Markets - We discuss the role of financial markets as intermediaries and how capital is allocated in a free market system.

Financial Markets Products - We consider the differences between equity, debt and hybrid securities. We review the IPO and debt markets as well as primary and secondary capital markets.

Time Value of Money - We learn about future value, present value, compounding and discounting.

Risk and Return - We measure risk, return and expected returns.

Valuation Methods - We value equities, bonds, and preferred shares. We probe concepts such as betas, risk free rates, market risk premiums. Finally, we discuss discounted cash flow and market multiple valuation methods.

Capital Budgeting Review - We review capital budgeting and cash flows measurement tools. We also provide an overview of how capital budgeting decisions should integrate with measuring and creating value.

Cost of Capital - We measure the cost of capital for equity, debt and hybrid securities. We also measure the weighted average cost of capital.

Capital Structure - We ascertain the use of financial leverage in determining a firm's appropriate capital structure. We also determine the linkage between capital structure and the value of a firm's equity and its overall value.

Financial Statement Analysis and Ratios - We familiarize ourselves with income statements, balance sheets, cashflow statements and financial ratios.

Grading:

Class Participation – 20%

Two Quizzes – 25% each for a total of 50%

Paper – 30%