

Annual State of Assessment Report

2014

The Anderson completed the UNM Academic Program Review process in Spring 2014. This process is intended to “support and advance the mission of the university through providing a mechanism for academic programs to examine their achievements, goals, and strategic plans for the future.” The review team for the Anderson School included two AACSB (Association to Advance Collegiate Schools of Business) members, both current deans of schools of business. The AACSB is the Anderson school’s accrediting body. A portion of their review included evaluation of Anderson’s current learning assessment process as requested by UNM’s APR process.

The following areas were evaluated that are consistent with the Anderson School’s learning assessment activities.

- Program Goals:
 - Published goals/educational objectives for each program (undergraduate and graduate). The team advised that “The Anderson School has developed an extensive framework of program goals, with an appropriate push out to individual courses, via an assurance of learning system.” The team determined that the school “meets” the program goals for this objective.
 - Students are aware of program goals. The team advised that “Students seem to display strong awareness of program and course goals.” The team determined that the school “meets” the program goals for this objective.
- Teaching and Learning, Continuous Improvement:
 - Regular use of appropriate, documented processes for assessing and evaluating the extent to which the program educational objectives are being attained. The team advised “evolving assurance of learning processes sufficient for external accreditation and identification of opportunities for program improvement. It was noted that there is concern that the implementation of processes is uneven across departments.” The team determined that the school “meets” the program goals for this objective.
 - Regular use of appropriate evaluation tools for assessing teaching effectiveness. The team advised that “course level assessment is appropriate. The Anderson School need to differentiate learning outcomes for online learning, so as to monitor and improve the emerging use of technology for distributed education.” The team determined that the school “meets” the program goals for this objective.
 - Results of evaluations systematically utilized as input for the continuous improvement of programs. The team advised that “closing the loop process is in place and functional. However, uneven application is perceived to be an issue.” The team determined that the school “meets” the program goals for this objective.

This summary by the review team highlights the strengths of Anderson's learning assessment process and the areas where improvement are needed. This information and additional self-assessment provided the basis for the self-assigned rubrics. Much of the work necessary to bring all measures to full implementation will occur once the school has completed the current strategic plan review. This review and adoption is expected to be completed in Spring 2015. Once the school's updated strategic plan is approved, the next step to enhancing learning assessment activities at Anderson will be to complete a review of all learning assessment activities and determine where improvements are needed. These activities will be guided by UNM's learning assessment goals and objectives and the new AACSB standards; coordinating UNM's learning assessment goals and objectives with the 2013 AACSB standards and addressing the gaps identified by the review team will be necessary for the school to have a fully mature learning assessment program.

Review of self-assigned rubric scores:

- **Broad Learning Goals & Student Learning Outcomes:** The self-assigned score is a 3. The school has developed student learning outcomes for all programs. They should be reviewed since it has been over three years since they were developed to determine if the linkage to the programs is current and relevant. They should also be assessed for linkage to UNM Learning goals.
- **Assessment Method (Measures/Instruments):** The self-assigned score is a 4. For all courses that are currently included as part of the school's learning assessment process, the student learning outcomes are measured directly and regularly. See attached documentation for assessment outcomes.
- **Timeline for Assessment Implementation:** The self-assigned score is a 3. The overall assessment plan is articulated and is due for review which will be completed after the school finishes updating its overall school strategic plan.
- **Data Collection & Analysis:** The self-assigned score is a 4. The process for reviewing the data is clearly articulated. Faculty use the "closing the loop" form to document their review process and plans for adjusting teaching and/or assessment activities based on the yearly review. A sample response is attached.
- **Implementation of Program Revision:** The self-assigned score is a 2. Not all faculty who complete assessment activities complete the "closing the loop" form. This is an area where improvement across programs and departments is needed.
- **Periodic Reporting:** The self-assigned score is a 3. Reporting is completed at the course level more thoroughly than at the program level. Development of a more consistent and robust review and revision process of learning assessment activities is warranted.

Initiatives:

As the school is heavily focused on the strategic planning process, positive steps are continuing in learning assessment activities. The "closing the loop" form (sample attached) was initiated in Spring 2013. This tool has been effective for documenting how faculty are using the data collected in the "management specific learning" tests.

The school continues to utilize online testing for the "management specific learning" tests. This expedites collation of results and streamlines this aspect of the assessment process. The number of courses completing assessment online has increased slightly for this review cycle.

The school hired an assistant from the English department to work with the undergraduate curriculum committee to review writing assignments given to Anderson students and revise the current assessment rubric. This work is expected to be completed in Spring 2015. Based on that work, the graduate curriculum committee will complete a similar review in academic year 2015/2016.

Assessment Outcomes:



Management Specific Learning, Undergraduate: Goals 1-3

		Fall 2010	Spring 2011	Fall 2011	Spring 2012	Fall 2012	Spring 2013	Fall 2013	Spring 2014
Goal	Course	% Correct	% Correct	% Correct	% Correct	% Correct	% Correct	% Correct	% Correct
1	Acct./202	76.78%	79.91%	83.18%	83.90%	82.83%	84.69%*	80.94%	80.50%
1	Oper./300	85.20%	82.31%	82.27%	88.86%	90.18%	86.95%*	77.20%	71.50%
1	Acct./303				74.16%	67.00%	67.04%*	82.00%	
1	Org. Beh./306		89.10%			83.97%	Team assessment completed this semester	85.4%*	84.58%
2	Ethics/308	69.50%	66.07%		77.61%	77.10%	75.29%	78.28%	79.43%
2	B. Law/310		79.90%			74.60%	88.91%	77.98%*	78.67%
1	Mktg./322	74.50%	70.22%	72.48%	69.22%	72.50%	77.09%	69.95%	61.31%
1	Fin./326		71.36%	68.50%	73.57%	73.56%	60.12%	75%*	80.15%*
3	Intl. Mgmt./328		69.24%	79.33%	83.22%	58.57%	71.31%	87.62*	90.27%
1	MIS/450	93.63%	90.75%	77.63%	85.20%	84.40%	83.67%	83.30%	80.09%
3	Strat./498	71.59%	86.27%	76.52%	79.69%	87.09%	81.5%*	84.03%	71.70%

*: Closing the Loop Form completed by courses marked with asterisk.

- Goals:
- 1) Management Functional Knowledge: Graduates have a broad knowledge of functional management areas including accounting, finance, marketing, operations management, organizational behavior, and quantitative methods.
 - 2) Management Perspective Knowledge: Graduates have a broad knowledge of the environment in which businesses operate including specific knowledge of business law, diversity, economics, and ethics.
 - 3) Management Integrative Knowledge: Graduates are able to integrate functional and perspective knowledge in areas that include global issues, strategy, and technology.

Management Specific Learning, Graduate: Goals 1-3

		Fall 2010	Spring 2011	Fall 2011	Spring 2012	Fall 2012	Spring 2013	Fall 2013	Spring 2014
Goal	Course	% Correct	% Correct	% Correct	% Correct	% Correct	% Correct	% Correct	% Correct
1	Stat./501	77.27%		72.20%	63.33%	72.00%	76.20%	76.15%	
1	Acct./502	79.41%							
1	Econ./504		65.96%		54.59%	48.69%			
1	Org. Beh./506					72.25%	69.73%	69.17%	
2	Ethics/508	76.90%	70.02%	71.50%	68.60%	74.80%	67.39%		65.88%
2	Tech. Comm./511					63.48%	76.83%	96.64%	69.55%
1	Oper./520	81.43%	60.13%				77.04%	89.60%*(summer)	
1	Mktg./522			67.90%	68.00%	71.00%	65.90%*	87.20%	
3	Financial Mgmt./526		74.47%	79.49%			86.20%	85.82%*	
1	Strat./598	71.10%	82.70%			75.90%	86.80%	77.80%	80.00%

*: Closing the Loop Form completed by courses marked with asterisk.

- Goals:
- 1) Management Functional Knowledge: Graduates have a broad knowledge of functional management areas including accounting, finance, marketing, operations management, organizational behavior, and quantitative methods.
 - 2) Management Perspective Knowledge: Graduates have a broad knowledge of the environment in which businesses operate including specific knowledge of business law, diversity, economics, and ethics.
 - 3) Management Integrative Knowledge: Graduates are able to integrate functional and perspective knowledge in areas that include global issues, strategy, and technology.



Critical Thinking Skills, Undergraduate

Fall 2010	Fall 2011	Fall 2012
Total Score, 1-6	Total Score, 1-6	Total Score, 1-6
3.4	3.4	3.2

Goal: Graduates have critical thinking skills, suitable to entry-level management positions, which enable them to find and classify relevant information, generate alternatives, prioritize decision-making criteria, and generate and justify appropriate decisions.

Written Communication Skills,

Fall 2010	Fall 2011	Fall 2012
Total Score, 1-10	Total Score, 1-10	Total Score, 1-10
4.6	6.0	4.7

Goal: Graduates have requisite oral and written communication skills for typical business communication scenarios including correspondence, reports, presentations, and interaction with internal and external constituents.

Oral Communication Skills,

Fall 2010	Fall 2011	Fall 2012	Fall 2013
Total Score, 1-5	Total Score, 1-5	Total Score, 1-5	Total Score, 75
3.8	4.0	5.0 for group; 4.75 for individuals	51.28 avg. of groups assessed

Goal: Graduates have requisite oral and written communication skills for typical business communication scenarios including correspondence, reports, presentations, and interaction with internal and external constituents.

Critical Thinking and Written Communication Skills are generally evaluated in MGMT 498 and 598 as the capstone courses for undergraduate and graduate students. The assessment is completed by a Master's or Ph.D. English department student who serves as the writing GA for the Anderson School during the previous semester. The rubric currently being used is below. In Fall 2014, the writing GA is met with the Undergraduate curriculum committee to redesign the rubric and Anderson's writing assignments.

Written Communication Rubric

	0 – Unsatisfactory	1 -- Satisfactory	2 -- Superior	Score
Organization & Development of Ideas	<ul style="list-style-type: none"> ▫ No, or poorly communicated, introduction ▫ No clear thesis ▫ Little or no logical connection from one idea to the next ▫ Basic or little understanding of topic. ▫ Little evidence of author's original thinking. ▫ Conclusion (when needed) absent or perfunctory 	<ul style="list-style-type: none"> ▫ Introduction implies but does not clearly state thesis, purpose and/or organization of paper ▫ Thesis present but not fully developed ▫ Generally thoughtful development of argument with some gaps in logic or reasoning. ▫ Competent understanding of topic. ▫ Some evidence of author's original thinking ▫ Conclusion (when needed) briefly summarizes paper but does not tie it into a coherent whole. 	<ul style="list-style-type: none"> ▫ Clear introduction states thesis, purpose and organization of paper ▫ Thesis clear and well-developed ▫ Logical arguments and analysis are easy to follow ▫ Thorough understanding of topic. ▫ Significant evidence of author's original thinking (e.g. persuasive synthesis of information) ▫ Conclusion (when needed) is clear and comprehensive. 	
Tone & Word Choice	<ul style="list-style-type: none"> ▫ Tone overly informal. ▫ Incorrect/inappropriate word choice often interferes with communication 	<ul style="list-style-type: none"> ▫ Tone generally professional. ▫ Word choice generally correct/appropriate. 	<ul style="list-style-type: none"> ▫ Tone consistently professional. ▫ Word choice precise, correct and appropriate. 	

	0 – Unsatisfactory	1 -- Satisfactory	2 -- Superior	Score
Spelling & Punctuation	<ul style="list-style-type: none"> ▫ Frequent errors (average 3 or more per page) ▫ Errors interfere with communication 	<ul style="list-style-type: none"> ▫ Occasional errors (average 1-2 per page) ▫ Errors do not substantially interfere with communication 	<ul style="list-style-type: none"> ▫ Very few errors (av. fewer than 1 per page) ▫ Errors do not interfere with communication 	
Grammar, Sentence & Paragraph Structure	<ul style="list-style-type: none"> ▫ Sentences regularly contain grammatical errors or other problems that interfere with communication ▫ Many paragraphs do not contain a topic sentence ▫ Paragraphs generally lack focus ▫ Quotations are often irrelevant ▫ Quotations often interrupt the flow of writing 	<ul style="list-style-type: none"> ▫ Sentences are generally grammatically correct but occasionally awkward ▫ Most paragraphs contain a topic sentence ▫ Paragraphs generally focused and coherent. ▫ Quotations generally add value ▫ Quotations occasionally interfere with flow of writing. 	<ul style="list-style-type: none"> ▫ Sentence structure makes paper easy to read ▫ Each paragraph contains a topic sentence ▫ Paragraphs are focused and coherent ▫ Quotations add value ▫ Quotations are integrated seamlessly. 	
Sources & References	<ul style="list-style-type: none"> ▫ Sources for facts, quotations and ideas not properly indicated. ▫ Sources do not support the author's points. ▫ Too few sources used. 	<ul style="list-style-type: none"> ▫ Where appropriate, sources for most facts, quotations and ideas are properly indicated. ▫ Sources generally support the author's points. ▫ More or a greater variety of sources should be used. 	<ul style="list-style-type: none"> ▫ Where appropriate, sources for all facts, quotations and ideas are properly indicated. ▫ Sources consistently support author's points. ▫ Appropriate variety of sources. 	
				Total:

CRITICAL THINKING RUBRIC

	Needs work (0)	Average (1)	Accomplished (2)	Score
Assimilate	<ul style="list-style-type: none"> ⊙ Fails to include relevant information ⊙ Includes excessive irrelevant information ⊙ Misinterprets or mischaracterizes information ⊙ Fails to include or is confused by information from a variety of viewpoints 	<ul style="list-style-type: none"> ⊙ Includes some relevant information ⊙ Minimal amount of irrelevant information ⊙ Generally interprets information accurately ⊙ Includes some disparate and potentially conflicting information from a variety of viewpoints 	<ul style="list-style-type: none"> ⊙ Includes most relevant information ⊙ Does not include irrelevant information ⊙ Consistently interprets information accurately ⊙ Effectively includes disparate and potentially conflicting information from a variety of viewpoints 	
Evaluate	<ul style="list-style-type: none"> ⊙ Demonstrates no or little independent/creative thought ⊙ Is unable to or superficially uses general principles to create reasonable solutions and/or predictions ⊙ Is unable to or superficially uses specific examples to support analysis ⊙ Does not evaluate alternative perspectives (e.g., functional, short/long term, strategic/tactical, internal/external) ⊙ Exhibits close-mindedness or hostility 	<ul style="list-style-type: none"> ⊙ Demonstrates some independent and creative thought ⊙ Limited use of general principles to create reasonable solutions and/or predictions ⊙ Limited use of specific examples to support analysis ⊙ Some evaluation of alternative perspectives (e.g., functional, short/long term, strategic/tactical, internal/external) 	<ul style="list-style-type: none"> ⊙ Consistently demonstrates independent and creative thought ⊙ Effectively uses general principles to create reasonable solutions and/or predictions ⊙ Effectively uses specific examples to support analysis ⊙ Effectively evaluates alternative perspectives (e.g., functional, short/long term, strategic/tactical, internal/external) 	
Conclude	<ul style="list-style-type: none"> ⊙ No decision ⊙ Decision not based on or only superficially based on sound evidence and prior evaluation ⊙ Decision not supported with persuasive arguments ⊙ Does not acknowledge other potential outcomes ⊙ Decision based on biased information/reasoning 	<ul style="list-style-type: none"> ⊙ Irresolute decision ⊙ Decision somewhat based on sound evidence and prior evaluation ⊙ Decision somewhat supported with persuasive arguments ⊙ Acknowledges other potential outcomes, does not effectively persuade they are less desirable 	<ul style="list-style-type: none"> ⊙ Clear decision ⊙ Decision clearly based on sound evidence and prior evaluation ⊙ Decision clearly supported with persuasive arguments ⊙ Effectively persuades that other potential outcomes are less desirable 	

	Needs work (0)	Average (1)	Accomplished (2)	Score
Source: Montana State University				Total:

Oral Communication Skills are generally evaluated in MGMT 300, 306, 498, 506 and/or 598. The assessment is completed by a Master's or Ph.D. Communications and Journalism department student who serves as the oral communications GA for the Anderson School during the previous semester. The rubric currently being used is below.

PRESENTATION Group Name:

TIME:

Scale: 0 = Missing 1 = Poor 2 = Fair 3 = Average 4 = Good 5 = Excellent

<u>Organization</u>	<u>X/25</u>
Introduction (Attention getter, preview of main points)	0 1 2 3 4 5
Seems to follow a logical organizational pattern	0 1 2 3 4 5
Main points well selected, key ideas well placed	0 1 2 3 4 5
Use of Transitions between speakers	0 1 2 3 4 5
Conclusion (Review of main points, memorable closing strategy)	0 1 2 3 4 5
<u>Content</u>	<u>X/20</u>
Uses of supporting material (technical data, testimonials, case studies, samples, stories, examples, statistics)	0 1 2 3 4 5
Effective use of engaging language (humor, personal accounts/testimonials, metaphors, analogies)	0 1 2 3 4 5
Credibility: knowledgeable/competent	0 1 2 3 4 5
Well cited sources	0 1 2 3 4 5
<u>Mechanics (if applicable)</u>	<u>X/15</u>
Graphics are appropriate in reinforcing/explaining points	0 1 2 3 4 5
Presentation free of grammatical and spelling errors	0 1 2 3 4 5
Obviously prepared for presentation/adequately rehearsed	0 1 2 3 4 5
<u>Group Cohesion</u>	<u>X/15</u>
Individuals displayed respect for group members (credibility)	0 1 2 3 4 5
Attentiveness to fellow speakers	0 1 2 3 4 5
Presentation flowed seamlessly between group members	0 1 2 3 4 5



UNM

ANDERSON SCHOOL
of MANAGEMENT

Team Skills, Undergraduate

Fall 2010	Fall 2012			
Total Score, 1-5	Total Score, 1-5			
4.5	2.51 adjusted			

Goal: Graduates have experience in completing complex managerial tasks as a team member.

Team Skills, Undergraduate

Fall 2012				
Individual Rubrics	Attendance	Establishing and Documenting Goals	Accountability for Results	Team Cohesion
	44.1%/2.2	53.5%/2.675	48%/2.4	53.2%/2.66
Individual Rubrics	Communication	Team Decision Making	Adjusting	Team Assessment
	60.6%/3.03	47.2%/2.36	61.4%/3.07	37.8%/1.89
Individual Rubrics	Timely Submission of Work	Leadership	Managing Conflict	
	58.3%/2.915	38.6%/1.93	49.6%/2.48	

Goal: Graduates have experience in completing complex managerial tasks as a team member.

“Closing the Loop” submission, Fall 2013

Reilly White

Department of Finance, International, Technology & Entrepreneurial (FITE)

Fall Semester, MGMT 526: LATs (White)

I taught 2 sections of MGMT 526 in Fall 2013, with a total of 50 students.

Course Learning Objective	Linkage to Program Learning Goals	Skill and Knowledge Assessed	#of Students Attempting	# Correct	% Correct
I. Corporations and Tax Policy	- Managerial Decision making: Incorporation	A.) Corporate Divisions B.) Tax Policy	50	43	86%
II. Ratio Analysis	-Problem Solving	A.) Financial Ratio Calculation	50	43	86%
III. The Law of One Price and International FX Markets	-Understanding Markets - Managerial Decision making: Hedging	A.) The Law of one Price B.) Arbitrage C.) FX Markets	50	44	88%
IV. The Time Value of Money	-Problem Solving -Financial Decision Toolkit	A.) PV and FV	50	45	90%
V. Interest Rates	-Risk and Returns Decisions	A.) Yield Curves B.) The Federal Reserve C.) Mortgage Calculation	50	42	84%
VI. Bond Valuation	-Problem Solving -Investment Decisions	A.) Fixed Income Securities B.) Pricing Bonds	50	45	90%
VII. Stock Valuation	-Problem Solving - Investment Decisions	A.) Gordon Growth Model B.) Multistage Growth Model	50	44	88%
VIII. Capital Budgeting	-Problem Solving -Financial Decision Toolkit	A.) NPV B.) IRR C.) MIRR D.) Payback & Discounted PB	50	46	92%
IX. Weighted Average Cost of Capital & Optimal Portfolio Choice	- Managerial Decision making: Investment Portfolios	A.) Security Market Line B.) CAPM C.) WACC D.) Mutual Funds, ETFs, and other Investments	50	42	84%
X. Current Financial Affairs	-Group Interaction -Real-World Application -Critical Thinking	A.) Financial Policy and the World	50	36	72%
XI. Behavioral Finance	-Real-World Application -Investment Decisions	A.) The Psychology of Investing	50	42	84%

Instructor's Assessment

Overall, I am pleased with the students' mastery of core concepts. However, I would like to increase the overall difficulty in many of the core concepts, also including greater group interaction. In my next iteration of this course, I will pursue the following improvements:

- 1.) More on Foreign Exchange Markets and Test on understanding of Arbitrage;
- 2.) More difficult and in-depth approach to Bond Valuation, including more emphasis on topics such as Diluted EPS and Convertibles;
- 3.) Greater emphasis on 'Current Financial Affairs' in every test, focusing on decision making where the outcome is ambiguous/uncertain
- 4.) More writing emphasis and critical thinking for all objectives.
- 5.) Improved time management during course periods
- 6.) Gradual replacement of Pearson Homework to Instructor-generated Homework

At the graduate level, the focus of this course should be on decision-making skills. Theoretical and applied concepts are taught in tandem, with significant examples of each given throughout each lecture.

Example Problems Given (Assuming 'Average Difficulty' for Each Objective)

Course Learning Objective I: Corporations and Tax Policy

You own 100 shares of a "C" corporation. The corporation earns \$5.00 per share before taxes. Once the corporation has paid any corporate taxes that are due, it will distribute the rest of its earnings to its shareholders in the form of a dividend. If the corporate tax rate is 40% and your personal tax rate on (both dividend and non-dividend) income is 30%, then how much money is left for you after all taxes have been paid?

- A) \$210
- B) \$300
- C) \$350
- D) \$500

Course Learning Objective II: Ratio Analysis

For this problem, consider:

Cleveland Browns Memorabilia, Inc.					
Consolidated Balance Sheet					
December 31, 2012 and 2011 (in \$ millions)					
Assets	2012	2011	Liabilities and Stockholders' Equity	2012	2011
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash	63.6	58.5	Accounts payable	87.6	73.5
Accounts receivable	55.5	39.6	Notes payable/ short-term debt	10.5	9.6
Inventories	45.9	42.9	Current maturities of long- term debt	39.9	36.9

Other current assets	6.0	3.0	Other current liabilities	6.0	12.0
Total current assets	171.0	144.0	Total current liabilities	144.0	132.0
<i>Long-Term Assets</i>			<i>Long-Term Liabilities</i>		
Land	66.6	62.1	Long-term debt	239.7	168.9
Buildings	109.5	91.5	Capital lease obligations	---	---
Equipment	119.1	99.6	Total Debt	239.7	168.9
Less accumulated depreciation	(56.1)	(52.5)	Deferred taxes	22.8	22.2
Net property, plant, and equipment	239.1	200.7	Other long-term liabilities	---	---
Goodwill	60.0	--	Total long-term liabilities	262.5	191.1
Other long-term assets	63.0	42.0	Total liabilities	406.5	323.1
Total long-term assets	362.1	242.7	Stockholders' Equity	126.6	63.6
Total Assets			Total liabilities and Stockholders' Equity		
	533.1	386.7		533.1	386.7

Cleveland Browns Memorabilia, Inc. Consolidated Income Statement Year ended December 31 (in \$ millions)

	2012	2011
Total sales	610.1	578.3
Cost of sales	(500.2)	(481.9)
Gross profit	109.9	96.4
Selling, general, and administrative expenses	(40.5)	(39.0)
Research and development	(24.6)	(22.8)
Depreciation and amortization	(3.6)	(3.3)
Operating income	41.2	31.3
Other income	---	---
Earnings before interest and taxes (EBIT)	41.2	31.3
Interest income (expense)	(25.1)	(15.8)
Pre-tax income	16.1	15.5
Taxes	(5.5)	(5.3)
Net income	10.6	10.2
Price per share	\$16	\$15
Shares outstanding (millions)	10.2	8.0
Stock options outstanding (millions)	0.3	0.2
Stockholders' Equity	126.6	63.6
Total Liabilities and Stockholders' Equity	533.1	386.7

A.) For both 2011 and 2012, tell me the following ratios for Cleveland Browns Memorabilia, Inc.:

	2012	2011		2012	2011
ROA			Current		
ROE			Quick		
ROI			Cash		
EBITDA/Interest			P/E		
Enterprise Value			Market Cap		

B.) Comment on the performance of Cleveland Browns Memorabilia between 2011 and 2012. Does the firm look stronger in 2012, weaker, or about the same? Based on your information, justify whether you would consider an investment in CBMC.

Course Learning Objective III: The Law of One Price and International FX Markets

Assume spot FX rates of 1.21 \$/€ and 1.50 €/£.

- (A) What should the direct cross-rate be for \$/£?
- (B) If a Big Mac costs \$4.30 in the United States, what should the price of the Big Mac be in £?

Course Learning Objective IV: The Time Value of Money

Example 1:

In 1626, Peter Minuit purchased Manhattan Island from some Algonquian Indians for cloth, beads and trinkets worth about \$24 at the time, an apparent bargain compared with the price of Manhattan real estate today. Assume that the value of Manhattan real estate in the year 2013 is about \$1 trillion; *did Peter Minuit get a good deal or not?* To decide, assume that Peter's \$24 could have alternatively been invested in a bank account in 1626, getting 6.5% interest per year (compounded annually) for 387 years, instead of being invested in Manhattan.

A. Yes; the Bank Account would have had a lower balance of \$921 billion in 2013.

What if the interest was compounded quarterly?

B. No; the Bank Account would have had a higher balance of \$1.645 trillion in 2013.

Example 2:

Earlier this year, the cost of Stanford's MBA program was estimated to be \$185,000. If How much extra salary will you have to earn each year over your 30-year career to justify its cost? Assume that the discount rate is equal to the current 10-year Treasury Bond yield of 2.76% (4 points)

If your Stanford MBA truly costs (including lost wages) \$345,000, and your career is only 20 years long, how much extra salary will you have to earn each year? Assume that the discount rate is 2.76%. (3 points)

Course Learning Objective V: Interest Rates

Horatio O'Finance has just purchased a home and taken out a \$400,000 mortgage. The mortgage has a 30-year term with monthly payments and has an APR of 5.4%.

Horatio's monthly payments are closest to:

- A) \$1,110
- B) \$1,800
- C) \$2,215
- D) \$2,245**

Answer: D

Explanation: D)

$$PMT = \frac{400,000 \left[\frac{.054}{12} \right]}{\left[\frac{1 - \frac{1}{(1 + \frac{.054}{12})^{360}}}{\frac{.054}{12}} \right]} = 2,246.12$$

Course Learning Objective VI: Bond Valuation

You are analyzing a bond and want to ensure that you calculate the Yield to Maturity and Yield to Call correctly. The bond has 12 years remaining to maturity. It is a semi-annual, 7% coupon, \$1,000 par value bond. The current price of the bond is 94.5 as a percent of par. The bond is callable in 6 years at a call premium of 101 (\$1,010)

- A. Calculate the yield to maturity?
I = 7.72%
- B. Calculate the yield to call?
I = 8.31%

Course Learning Objective VII: Stock Valuation

The current dividend on a stock is \$1.75 per share and investors require a rate of return of 11%. Dividends are expected to grow at a rate of 21% until year 1, 18% between years 1 and 2, and 15% between years 2 and 3. Afterwards, the company will grow at a steady rate of 6% per year from that point on. Find the price of the stock.

Course Learning Objective VIII: Capital Budgeting

You have two projects, A and B, with the following cash flows:

First, calculate Payback, Disc. Payback, IRR, MIRR, and NPV for each project. Which one would you pick, and why?

	A	B
0	-15,000	-20,000
1	4,000	11,000
2	3,000	16,000
3	2,000	2,000
4	20,000	3,000

Answers:

Payback	3.300	1.563
Disc. Payback	3.363	1.618
IRR	23%	30%
MIRR	19%	14%
NPV	11,311	10,257

Project A has a better NPV and MIRR – these are the most important factors, so pick project “A”.

Course Learning Objective IX: Weighted average Cost of Capital & Optimal Portfolio Choice

The Rio Rancho Dust Corporation is constructing its cost of capital schedule. The target capital structure is based on the market values of the company’s outstanding securities (Hint: Calculate the weights first!). It has 22,500 bonds outstanding with a 12% coupon, paid semiannually, a current maturity of 20 years, and sell for \$1020 each. The firm could sell \$100 preferred stock which pays a 12 % annual dividend for \$95 each. Rio Rancho Dust Corp. currently has 225,000 shares of preferred stock outstanding. RRDC is a constant growth firm which just paid a dividend of \$2.00 on its common stock which sells for \$27 per share, and has an expected growth rate of 10%. There are currently 2,500,000 shares of common stock outstanding. The firm’s marginal tax rate is 40%.

Please estimate their weighted average cost of capital.

Target Capital Structure

Debt	22,500 bonds * \$1020 each	=	22,950,000
P.S.	225,000 shares * \$95	=	21,375,000
C.S.	2,500,000 shares * \$27 =		<u>67,500,000</u>
Total Market Value of the Firm			111,825,000
Wd	22,950,000/111,825,000	=	.21
Wps	21,375,000/111,825,000=		.19
Wcs	67,500,000/111,825,000=		.60

Cost of Debt

N = 40 I/Y = ? PV = -1020 PMT = 60 FV = 1000
Solve for I/Y = 5.87% times 2 = 11.74% = Kd

Cost of Preferred Stock

Dividend = .12 * \$100 = \$12

$$\begin{aligned}
 K_{ps} &= D_{ps} / P_{ps} \\
 &= 12 / 95 \\
 &= 12.63\%
 \end{aligned}$$

Cost of Common Stock

$$\begin{aligned}
 K_{cs} &= D_1 / P_0 + g \\
 &= 2(1.10) / 27 + .10 \\
 &= 18.15\%
 \end{aligned}$$

WACC

Debt	.21	*	11.74% (.6)	=	1.479
P.S.	.19	*	12.63%	=	2.400
C.S.	.60	*	18.15%	=	<u>10.89</u>
			WACC	=	14.77

Course Learning Objective X: Current Financial Affairs

- (1) Name and explain “Quantitative Easing” policies pursued by the Federal Reserve during the last several years?
- (2) What is short selling? Explain or use an example (partial credit given!)

Course Learning Objective XI: Behavioral Finance

- (1) Which of the following about Overconfidence and Trading Frequency is FALSE?
 - A) Households that trade more earn higher returns on average
 - B) If you are overconfident about your investment skill, it is likely that you will trade too much.
 - C) Men trade about 50 percent more than women.
 - D) Single men are much riskier than single women.
- (2) What effect refers to the belief that your knowledge is somehow better than other investors, and you can somehow make more informed judgments?
 - A) The Illusion of Knowledge
 - B) The Snakebite Effect
 - C) The Hot-Hand Fallacy
 - D) ‘Get-Evenitis’

Template for “Closing the Loop” Form

ASSURANCE OF LEARNING CLOSING THE LOOP FORM

As a condition of our accreditation, the AACSB requires that Anderson perform a learning outcomes assessment. As part of this process, we need to “close the loop” wherein we assess the data collected, attempt to interpret it and strategize about different approaches to change our delivery or course structure in the coming semesters. Please complete this form for each core course in order for us to internally document this process and provide a record should we ever be called upon to provide documentation of this process.

CORE COURSE # MGT _____

COURSE TITLE _____

DATE _____

DEPARTMENT _____

INSTRUCTORS INVOLVED IN THIS DISCUSSION:

Provide a brief overview and explanation of LAT results (i.e., 72% of students performed well on questions about breakeven analysis as we added content to MGT 303 to reinforce this concept, etc.)

Brainstorm possible methods/changes to content/delivery to improve future performance. List a few options below.

What will you do differently the next time this course is taught to improve the student experience/learning.

Thank you! As you know, documentation of this process is of the utmost importance and we simply need to demonstrate what we are doing to improve learning outcomes—while it is nearly impossible to predict what will WORK, documenting our change in approach provides data for next year’s assessment and “loop closing” process.