

CASES IN
FINANCIAL
MANAGEMENT



Second Edition

Joseph M. Sulock

John S. Dunkelberg

C a s e s i n
F i n a n c i a l
M a n a g e m e n t

**Cases in
Financial
Management**
Second Edition

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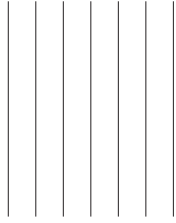
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P R E F A C E

This book contains fifty-seven cases divided among ten parts and was written with three criteria in mind. First, we wanted situations based on real firms, real products, real individuals and—most of all—real issues. Second, we wanted the cases to require the thoughtful application of financial concepts. Finally, we felt the cases should incorporate some of the complexities that are characteristic of real-life problems. Therefore, in order to develop reasonable solutions, students must first be able to apply financial theory. But they also must be sensitive to “real-world complications” surrounding the problems, such as any qualitative issues and the reliability of the information they are analyzing.

Case studies, therefore, provide an essential link between the classroom and the real world. Applying theory generates student excitement and develops the problem-solving skills that students need to become valuable members of any organization. In addition to reasoning out answers to questions and ultimately deciding upon solutions to cases, students must be able to communicate their recommendations effectively. Thus, working on cases develops the integrated thinking and communication skills required for success in the business world.

It is also possible to have students solve cases together in pairs or small groups, enabling them to practice oral communication and develop forms of cooperation that will also benefit them. Therefore, cases provide a transition between the academic setting in which students have learned their theory and the business setting in which they will be applying their knowledge.

A NOTE TO INSTRUCTORS

Some casebooks emphasize skill development where each case, in essence, is a separate problem set. At the other extreme are books that are completely unstructured and each case is virtually identical to a difficult real-life problem. This book is generally in the middle of the spectrum, though it does contain both a number of straightforward cases and a few others that approach the

more involved Harvard ones. There is sufficient structure for students with one finance course to solve each “puzzle.” Yet most of the cases incorporate a variety of issues, and students need to “fit all the pieces together” in order to devise sensible recommendations.

In our view the book is best used in either an undergraduate case course, or as a supplement in the second undergraduate or the first graduate corporate finance course. Still, a number of cases are relatively simple and resemble an extended problem set. In addition, the more involved cases can be “toned down” by having the students ignore some of the issues. Thus, it is possible to use the book as a supplement in the first undergraduate course. There is also a section called “Comprehensive Cases” for instructors who wish to test their students’ ability to handle unstructured situations. Students typically require some guidance before undertaking such cases, and this section is preceded by a “note” that contains suggestions on how to approach unstructured problems. The *Instructor’s Manual*, however, does provide a set of questions that can be used if desired.

As all instructors who use cases know, it is quite time-consuming to incorporate cases into a course. With this in mind, the *Instructor’s Manual* contains a brief abstract of the case, including any subtopics covered, the difficulty of each case, and most important, a detailed set of answers.

FEATURES OF THE SECOND EDITION

There are 57 cases, up from the 50 in the first edition. Thirteen cases are completely new including ones on divestiture, bankruptcy, working capital policy and capital budgeting procedures. The old “Financial Analysis and Planning” section has been split into two parts, and the Comprehensive Section now contains nine cases (up from seven).

The narrative and at least some of the numbers to eighteen cases have been changed, and the narrative to five others has also been altered. Nearly all cases have been updated in terms of dates and economic events.

There is user-friendly software for 25 cases. Each of these cases contains a “software question” that extends the analysis in an unforced and natural way using sensitivity/scenario analysis. These questions are marked with an icon.

THE SOFTWARE

The software was developed by Joseph Sulock and Delvin Hawley (of the University of Mississippi). Twenty-five cases have software that is compatible with Windows-based versions of Lotus, Quattro Pro, and Excel.

The main objective of the software is to help students extend the case analysis. We accomplish this by developing sensitivity/scenario analysis templates. A user will be able to change the values of selected inputs and immediately see

the impact on “outputs of interest.” This type of analysis could easily change a recommendation that is based only on a single set of estimates.

One problem, though, is that students may need to be guided in the analysis. We provide this guidance by supplying for each case a software question that requires students to analyze specific scenarios.

Note that the use of these input/output spreadsheets is consistent with the main objective of the software. There is still a danger that students will not understand the financial concepts involved because it may appear to them that they are simply inputting values into a black box. The way the book is written, however, students can first work each case by hand with a minimum of number crunching. Then the software question is assigned and the software distributed to the students. This should eliminate the black box effect.

There are other uses of the software as well. For example, the templates could be used to help sharpen the students’ spreadsheet skills. This as well as other possible uses of the software are explained in the preface to the IM.

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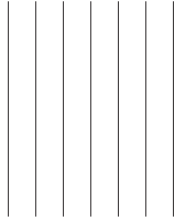
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Though considerable effort has gone into this book, we realize that any manuscript can be improved and we cheerfully welcome all suggestions.

This book is dedicated to our families and our students.

May 1996
Joseph M. Sulock
John S. Dunkelberg



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