Professor Linda Bilmes

**MLD-­‐411M**

**Course Syllabus**

**Draft as of December 15, 2016**

**INTRODUCTION TO BUDGETING AND FINANCIAL MANAGEMENT**

**Spring 2017 – Sp. 1**

**Mondays 4:15-7:00pm STARR**

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**Wednesdays 4:15-5:45pm L230**

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**Review Sessions: Fridays 10:15 –11:30am**

**(1 Brattle 401)**

#  Brian Iammartino, Associate Fellow MRCBG

**Faculty Assistant: Patricia Timmons,** Rubenstein 110B

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Prof. Bilmes office hours: Brian Immartino office hours:

Tuesday 2:30-­‐4:00 FLOUR Cafe Tue. 5:00 – 7:00 TBA

Wed team lunches by appointment

Sign-ups on CANVAS or contact Patricia

Course Assistants:

Karam Chae Karam\_Chae@hks17.harvard.edu OH: Tue. 10:00-­‐12:00 LG-­‐21B

Teaching Fellow:

Morgan McDaniel morgan.mcdaniel@hks17.harvard.edu OH: Thurs. 10:30-­‐12:00 TBA

# Course Overview

This is an introductory module designed for students who have little or no background in budgeting and financial management. You will learn to understand the basic language of budgeting and become familiar with the different types of budgets used in public, non-­‐profit, and for-­‐profit organizations. The course will teach specific tools that are used in budgeting and financial management. We use the case method, exercises, simulations, clinics and on-­‐line tutorials. It is a demanding course that is a lot of fun but also requires patience, practice and hard work.

We will cover budget formulation, budget analysis, budget execution, and how to create operating and capital budgets. This course teaches variance analysis, cost accounting, capital budgeting, and design of financial spreadsheets, revenue forecasting and the balanced scorecard. There will be an optional extra session to teach financial accounting. Most (but not all) of the material covered is taught using budgets from organizations such as local governments, sports teams, hospitals, small businesses and other institutions that are transferable to international settings.

MONDAY LONG SESSIONS and ROOM CHANGE:

* Mondays are *longer* class days, in which we will meet from 4:15 until 7:00pm in Starr. The long sessions will be where we do the hard work of mastering new skills and getting them under our belts.
* Most Wednesdays are regular class sessions (4:15pm-5:45pm), in L-230. In some cases we have special activities on Wednesdays, such as clinics. Depending on the day, we *may* require a longer session, or offer optional extra sessions. Please pay attention to the timing of each class noted on the syllabus.
* Longer sessions will provide snacks (e.g pizza or lasagne) and drinks.

# Prerequisites

This course is intended as an *introduction* to budgets. There are no formal prerequisites, and you do not need to be a “numbers” person in order to do well in this class. However you should be familiar with basic Excel.

*Students who need more help with the mechanics and technical aspects of the course must attend the Friday review sessions, which are held on Fridays.* These sessions are carefully designed to supplement the classes and review the homework assignments. If you are not sure whether this class is the right level for you, look carefully at the previous final exams posted on the website. *If you already know this material, then you should not take this course*.

#  Requirements

This course requires the following:

* + Class Participation
	+ Preparation of case materials
	+ Completion of homework assignments
	+ Completion of on-­‐line tutorials
	+ Team exercises
	+ Midterm Quiz
	+ Final Exam

Approximately two-­‐thirds of the classes will involve case discussions, primarily using Harvard Business School materials. *To prepare these cases, you must read them, and crunch the numbers BEFORE coming to class*. We use several on-­‐line tutorials which will help you to master the new skills, and we provide plenty of “scaffolding” (excel templates, in-class practice and clinics) to make sure you are devoting homework time to necessary practice and learning. If you have not used the skill before, you may need to run the tutorial a couple of times.

Students will be assigned into teams at the beginning of terms on the basis of their schedule availability and background. We will send out a short survey to obtain this information from you.

All students are required to complete the on-­‐line tutorials, to prepare each case thoroughly, to participate in class discussions, to submit individual and team homework assignments and problem sets. Check CANVAS Pages for announcements and posting of materials. Assignments, instructions and templates will be posted before class. Handouts and copies materials used in class will be posted on *after* class. (There may be minor changes/additions/subtractions to the materials used in class, as I update them depending on what we covered during the session).

There will be 5-6 individual homework assignments and 2-3 team assignments that must be submitted and which will form the basis for class discussion. You may be called on randomly to present portions of the cases. Students may miss one individual homework class without penalty. Class attendance is mandatory and may only be excused for with a note from the program director or in case of serious emergency.

*Laptops are only permitted for portions of class – depending on the assignment. Students must shut down there laptops when we are working on non-laptop discussions and exercises.*

Question Cards: This is a short module. Previous feedback suggests that it is not a good use of class time to review technical material from the homework during the class. Therefore, if you have a question or comment that is not covered in class, please submit a “Question Card”, which will be by the door in every session (which may be submitted anonymously). I will post the answers on the CANVAS course website.

# Readings

**There is a mandatory case for the first day of class!! Read the “Seven Letters”** and come prepared to answer the questions listed on CANVAS.

There are three types of readings associated with the course. Readings marked “*Critical*” means that you will not be able to do the homework assignment without it. The other *required* readings are necessary to understand the concepts, to participate in the discussions meaningfully, and to see connections with the other material. Some questions on the exam will be drawn from these readings.

I have tried to prune the required readings so everything is directly relevant to the key concepts. In addition, there are “optional” readings for each topic that may be helpful if you would like more practice, more information on the topic, or in preparing for the exam or for job interviews .

Most of the skills-­‐teaching cases are from Harvard Business School (HBS). The tutorials are learning tools that enable you to learn the skill at your own pace. You will receive a special code so that you can enter the site to use these tutorials. *Do not share this code with anyone outside the course because we have only purchased copies for the students in the class*.

**NOTE:** The cost of classroom handouts as well as materials purchased from outside vendors (including the HBS online tutorials) and distributed in class will be recovered through a term bill charge at the end of the semester. All students are term billed for these materials*.*

# Office Hours

# We have organized office hours to try to accommodate many different schedules, and to provide maximum assistance with the homework schedule. Professor Bilmes will meet students at Flour Cafe on Tuesday afternoons, please sign up on CANVAS. Office hours for Brian Iammartino, Morgan McDaniel and the course assistants are posted on CANVAS. There will be supplementary reviews prior to the exam.

# Review Sessions

Review sessions will be conducted by Teaching Fellow Morgan McDaniel. Morgan was a student in the class last year and is a highly effective teacher. Students who feel uncertain on the numbers, or who wish to review the answers to problem sets and assignments in great detail, it is *highly advisable* to attend the reviews*. Attendance at review sessions is factored into class participation*. Review sessions will be taped and posted as soon as we receive them from IT (usually 48 hours).

# Team Assignments

HKS is very enthusiastic about team learning. The MLD-411 budgeting teams have been particularly successful over the years. Since 2003 my students’ teams have resulted in 11 weddings and 4 “budget babies”.

In order to help organize the teams, we will disseminate a very short survey on the 2nd day of class to check on your schedule and background. Students will be assigned into teams of 3 or 4 students on the basis of this survey. The teams will be used in class at various points and there are (XX) team homework assignments.

# Grading

Individual homework assignments are graded pass/fail. All that is required for a passing grade is a genuine effort to master the material. However, these assignments are critical for you to learn the material, and the feedback from previous years is that students find them very useful. They also enable me and the course assistants to get a sense of how you are doing, and what to emphasize during class.

You should print out your homework assignments and bring them to class. Students must print out the assignment so that the spreadsheet columns fit on a single page. They must be submitted to your designated course assistant or placed in the Homework Box outside Starr unless otherwise indicated. Individual assignments must be submitted individually. Team assignments should include all team members’ names and you should submit one copy only in the Homework Box. Late homework will receive half-­‐credit except in case of medical excuse. *Students may choose to skip ONE individual homework assignment without penalty (not the team exercises).*

Answers to the homeworks will be posted after class. Homeworks with feedback may be collected from cubicle outside Patricia Timmons’ office R-­‐110B within one week.

Grades are assigned on the basis of:

* + 15% Class Participation
	+ 10% Homework Assignments
	+ 10% Team Assignments
	+ 20% Midterm Quiz
	+ 45% Final exam

The course will use the standard HKS-­‐required grade distribution.

# Exams

There will be a short midterm quiz (35 minutes during class period) and a final exam on the last day of class. **The final exam will be given in class on Wednesday, March 8, 2017 from 4:15pm- 5:45pm. If you have a conflict and cannot take the final exam then you cannot enroll in the course. Please note there are no exceptions to this rule.**

You may bring one page of your own notes (two-­‐sides) and a calculator. (*No mobile phones* permitted as calculators). No make-­‐up quiz will be given.

The exams are straightforward and there are no surprises. The TF will hold a review prior to the midterm quiz and the final. Answers to the quiz will be posted on-­‐line and explained in the review session. Final exams and quizzes will be graded and returned to you with the answers posted on-­‐line. If you have queries about your exam or quiz, you must submit your exam and the query in writing to Patricia Timmons within ONE week of receiving it. The entire exam will be re-­‐graded, so the grade can go up or down.

# Team Exercises

There are three team exercises.

1. Somerville Traffic Unit: Teams will prepare the case from one of the positions handed out prior to class.
2. DUMBO: Teams will prepare the case from one of the four perspectives handed out. Teams will receive the supplementary information for their perspective, and work on the DUMBO B and C sections together.
3. Balanced Scorecard: Teams will work to design balanced scorecards.

# Extra classes to enjoy budgeting even more!

# There are two “optional” classes scheduled. These are optional in that they will not be on the exams - but you won’t want to miss them!

#  On Wed, Feb 8th? Mr. Vincent Smith, former director of budgeting at the UN Peacekeeping and currently COO of the UNCAO, will run a simulation of managing the budget during wartime. This will run from 5:30-6:30? pm. Students may join Vincent for dinner at Tanjore to debrief the exercise after the class.

# Brian Iammartino will provide an intensive 1-evening session on financial accounting. If you have not previously taken accounting, you are strongly encouraged to attend this session to familiarize yourself with the basic financial statements and what they represent.

# SEQUENCE: MLD-412, “Greater Boston Applied Learning Field Lab”

The MLD-411m module is a prerequisite for enrolling in MLD-412m, the advanced budgeting, operations and financial management field course. I have been leading the The Greater Boston Field Lab for the past 12 years, during which time we have completed dozens of projects in the region, including setting up the Hubway bike program, helping Boston to finance the Rose Kennedy Greenway and to expand the Boston Harbor Islands access, helping the City of Somerville to adopt program budgeting and Somerstat, and working with Cambridge on participatory budgeting. Module 4 of 2017 will include work for the MBTA, the Boston data analytics division, and the North-South rail corridor. Student enrollment limited to 24, by permission of instructor. Summer fellowships available for follow-on work.

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|  | ***Pre-Class*** | **MONDAY CLASS**  | ***Pre-Class*** | **WEDNESDAY CLASS** |
| WEEK 1 (Jan. 23) | **Pre-January 23**Readings:* “Seven Letters” case
* Budget background materials

*Assignment due Jan. 23** Prepare for in-class discussion questions
 | **January 23 (Class 1 - STARR)**Topic:* Budget Overview and Frameworks

Discussion:* Review "Seven Letters" case
* Introduction to “Bartlett” case

In-class exercise:* “Bartlett” case preparation
 | **Pre-January 25**Readings:* Variance Analysis
* “Bartlett” case

*Assignments due Jan. 25** Variance tutorial
* Variance exercises
* Finish “Bartlett” case
 | **January 25 (Class 2 - L230)**Topics:* Budget Formulation
* Variance Analysis

Discussion:* “Bartlett” case take-aways
* Introduction to “Software Associates” case

In-class exercise:* Variance analysis
 |
| WEEK 2 (Jan. 30) | **Pre-January 30***Assignment due Jan. 30** Complete “Software Associates” case
 | **January 30 (Class 3 - STARR)**Topics:* Variance Analysis
* Activity-Based Costing (ABC)

Discussion:* “Software Associates” case take-away
* Introduction to ABC

In-class exercise:* Kalamazoo Zoo
* ABC examples
 | **Pre-February 1**Readings:* “ABC Pens” case
* ABC materials

*Assignments due Feb. 1*:* ABC Tutorial #1
* Prep to complete “ABC Pens” case in class
 | **February 1 (Class 4 - L230)**Topic: * Activity-Based Costing Clinic

In-class exercises:* “ABC Pens” case
* “Bartlett Revisited” exercises
 |
| WEEK 3 (Feb. 6) | **Pre-February 6**Readings:* ABC readings

*Assignment due Feb. 6** ABC Tutorial #2
* “Somerville Traffic Unit” case
 | **February 6 (Class 5 - STARR)**Topic:* Activity-Based Costing
* Excel Modeling

Discussion:* “Somerville Traffic Unit” case with Guest Speaker Mayor Curtatone
* Introduction to Excel modeling
* Introduction and prep for “Foss Park” case
 | **Pre-February 8***Assignment due Feb. 8*:* Begin “Foss Park” case
 | **February 8 (Class 6 - L230)**Topic:* Activity-Based Costing Clinic (“Foss Park” Case)

**\*OPTIONAL\* (6pm – 7pm)*** Vincent UN Budget Overview
* Dinner with Vincent
 |
| WEEK 4 (Feb. 13) | **Pre-February 13**Readings:TBD*Assignment due Feb. 13** Complete “Foss Park” case
* Complete “Buying Time” tutorial
 | **February 13 (Class 7 - STARR)****Short Quiz:*** **Variance**
* **Activity-Based Costing**

Topics:* Revenue Forecasting
* Capital Budgeting

Discussion:* Revenue Forecasting
* Introduction to Capital Budgeting (NPV, IRR, Payback, Timing of Cash flows)

In-class exercise:* Problem Set
 | **Pre-February 15***Assignment due Feb. 15** “DUMBO A” case
 | **February 15 (Class 8 - L230)**Topics:* Valuation
* Laying out Capital Budget

Discussion:* “DUMBO A” case
* “DUMBO B” case

In-class exercise:* “DUMBO B” case
 |
| WEEK 5 (Feb. 20) |  | **February 20****\*NO CLASS\*** | **Pre-February 22**Reading:* Basic infrastructure finance

*Assignment due Feb. 22** “DUMBO B” case
 | **February 22 (Class 9 - L230)**Topic:* Capital Budgeting Flows

In-Class Exercise:* “DUMBO C” case
* Prep for “A-ROD” case
* Prep for “Athens Ring Road” case

**\*EXTRA HOUR\*: 6pm-7pm*** Accounting
* Master Budget Concept
 |
| WEEK 6 (Feb. 27) | **Pre-February 27***Assignment due Feb. 27** “Athens Ring Road” case
* “A-ROD” case
 | **February 27 (Class 10 - STARR)**Topic:* Capital Budgeting and Financing

Discussion:* “Athens Ring Road” case
* “A-ROD” case

Guest Speaker:* Brian Shortsleeve, MBTA
 | **Pre-March 1**Reading: “Boston Lyric Opera” case | **March 1 (Class 11 - L230)**Topics:* Innovations in Budgeting (Budget Execution; Balanced Scorecard; Participatory and Performance Budgeting)

In-class exercise:* HKS balanced scorecard
 |
| WEEK 7 (Mar. 6) | **Pre-March 6**Readings:* “St. Xavier” case
* “Bartlett Revisited Yet Again” case
 | **March 6 (Class 12 - STARR)**Topic:* Course Review

Discussion:* “St. Xavier” case
* “Bartlett Revisited Yet Again” case
* Review of two final exams
 | **Pre-March 8** | **March 8 (Class 13 - L230)****\*FINAL EXAM IN CLASS\*** |

## – Monday, January 23rd

**Topic: Budget Overview and Frameworks**

READ CASE**:**

* Stene, Edwin O. “Seven Letters: A Case in Public Management,” *Public Administration Review*. Vol. 17, No. 2, pp. 83-­‐90. Revised 1996. *(Posted on course page)*

ANSWER THESE DISCUSSION QUESTIONS: This collection of correspondence highlights the conflict and tension between program managers and budget staff. Please come to class prepared to discuss the following questions:

1. Have you ever experienced this type of conflict, either from a budget perspective or a program perspective?
2. Why is Mason dissatisfied with the way that the budget office has handled his request for additional personnel?
3. Why is Harper unhappy with how the Water Department has responded to budget office inquiries about the personnel request?
4. Is the conflict inevitable? What data could be used to resolve the conflict? Is that data provided in the case? What reasonable assumptions could help you?

 5. What kind of framework or template would you recommend to avoid such problems?

REQUIRED READINGS:

* Richard Steele and Craig Albright, “Games Managers Play at Budget Time”, MIT Sloan Management Review, Spring 2004. Vol 45, no.3, SMR-­‐140. reprint # 45314 (posted on course page)
* Wildavsky, Aaron and Naomi Caiden, The New Politics of the Budgetary Process, Fourth Edition (New York: Addison-­‐Wesley Educational Publishers) 2001, pp. 1-­‐6 (“Budgeting as Conflicting Promises”) (posted on course page).
* Chapter 7, Harvard Business Essentials: Guide to Finance for Managers, Harvard Business School, Product number: 8768-­‐PBK-­‐ENG

OPTIONAL READINGS:

* Garner, C. William, “The Origins and Purposes of Accounting and Budgeting”, in Accounting and Budgeting in Public and Nonprofit Organizations (San Francisco, CA: Jossey-­‐Bass Publishers) 1991, pp. 1-­‐19. (posted on course page).
* Mikesell, John. Fiscal Administration: Analysis and Applications for the Public Sector, Sixth Edition. (Belmont CA: Wadsworth Group/Thomson Learning) 2003, pp. 613-­‐626 (“GLOSSARY”). [Note: this is a glossary. You do not need to memorize it – just look at the terms, and keep this on hand as we go through the course.] (posted on course page).

## – Wednesday, January 25th

**Topic: Budget Formulation; Variance Analysis**

This class will introduce the most common way of monitoring budgets, which is by using variance analysis. Variance is used to isolate price and quantity factors in the actual vs. expected revenues and expenditures. Variance analysis allows us to disaggregate the actual budget so we can understand the situation better.

ASSIGNMENTS:

* Variance Tutorial: Variance Analysis (Harvard Business School Publishing)***.*** You must do this tutorial, which you can access at [http://www.elearning.hbsp.org/.](http://www.elearning.hbsp.org/) Directions on how to access the tutorials will be sent via email from Patricia Timmons.
* Variance exercises
* “Bartlett” case: Create a budget for the upcoming year. Use the TEMPLATE posted on the course website for guidance. Start with revenues (a fairly straightforward calculation) before tackling the more complex expense calculations. It may be helpful to group expenses by academic program –1st year Masters, 2nd year Masters, Doctoral students, Executive Programs and Research. Ultimately we want to compare the projected revenues and expenses for the upcoming year.

Answer the following questions:

1. What are the total revenues for the BSM? What are total expenditures? Is the BSM in the red or the black?
2. How would you allocate the faculty cost across the different programs?
3. How would you allocate the overhead expenses across the different programs?
4. How much information does the line-­‐item budget provide you if you don’t allocate the overhead expense. Which program(s) are earning or losing money, net of revenues?
5. What recommendations would you offer to the Dean?

READ CASE:

* “Bartlett Graduate School of Business Administration” John F. Kennedy School of Government, 1999. This case, which bears passing similarity to a well-­‐known School of Government, demonstrates how an ordinary line-­‐item budget is pulled together from a long and somewhat confusing list of information about how the school operates. The case also shows the difficulty of allocating overhead costs.

CRITICAL READING:

* “Variance Analysis and Flexible Budgeting”, Harvard Business School Publishing Note. 9-­‐101-­‐039, c 2000

READING:

* Robert N., Anthony and Young, David W.; Management Control in Nonprofit Organizations, Sixth Edition (Boston, MA: Irwin/McGraw Hill) 1999, Chapter 13, “Reporting on Performance: Technical Aspects”, pp. 616-­‐635, and Budgeting, pp. 444-­‐461.

OPTIONAL READINGS**:**

* Bucci, Ronald V. "Budgeting and Variance Analysis." *Medicine and Business*. Springer International Publishing, 2014. 79-­‐86.
* Herzlinger, Regina E. and Denise Nitterhouse, Financial Accounting and Managerial Control for Nonprofit Organizations, pp. 279-­‐298 (top).

## – Monday, January 30th

**Topic: Variance Analysis; Activity-Based Costing (ABC)**

Activity-­‐Based Costing (ABC) is a fundamental skill in budgeting. Budgets are essentially meaningless until you learn how to unravel them using this cost accounting technique. We will first learn the basic skill in the tutorial and then examine how ABC works.

READ CASE**:**

* Software Associates, Harvard Business School C 2004 (9-­‐101-­‐038)

ASSIGNMENT:

**Prepare case:** Software Associates, Harvard Business School C 2004 (9-­‐101-­‐038)

Using the Excel Template posted on the course website, prepare questions 1 to 4 of the case, covering price and volume variance and flexible budgets**.** (Do not prepare Question 5 on mixed variance). Print out your calculations and hand them in.

IN-CLASS EXERCISE:

Kalamazoo Zoo Case

## – Wednesday, February 1st

## Topic: Activity-Based Costing Clinic

ASSIGNMENT FOR CLASS:

DO ABC TUTORIAL: Introductions to Cost Accounting Systems Tutorial (HBS)

You must do this tutorial before class #4 which you can access at [http://www.elearning.hbsp.org/.](http://www.elearning.hbsp.org/) Go through slides 1-­‐33. Pay particular attention to the Greenwich Greenstuffs example.

READ THE ABC PEN CASE:

You must read the case before class.

* Classic Pen Company: Developing an ABC Model, HBS Case 9-­‐198-­‐117.

FAMILIARIZE YOURSELF WITH THE TEMPLATE THAT WE WILL DO AS AN IN CLASS EXERCISE.

CRITICAL READINGS:

* “Brief Introduction to Cost Accounting”, Harvard Business School C 1993 (9-­‐192-­‐068)
* “Introduction to Activity-­‐Based Costing”, Harvard Business School C 2001 (9-­‐197-­‐076)

IN-CLASS EXERCISE

Bartlett School of Management Revisited

## – Monday, February 6th

## Topic: Activity-Based Costing; Excel Modeling

READINGS:

* “Activity Accounting – Another Way to Measure Costs”, Harvard Business School C 1992 (9-­‐193-­‐044)
* Kaplan, Robert S and Porter, Michael E. “How to Solve the Cost Crisis in Health Care” HBR (September 2011) Reprint: R0801D
* “Using Activity-­‐Based Costing to Manage More Effectively”, Michael Granof, David Platt and Igor Vaysman, Department of Accounting, University of Texas, PricewaterhouseCoopers Endowment for the Business of Government. (posted on course page).
* Blanton, Kimberly, “Best Places to Live 2012”, Boston Magazine. Available online [http://www.bostonmagazine.com/articles/2012/02/boston-­‐](http://www.bostonmagazine.com/articles/2012/02/boston-)best-­‐places-­‐to-­‐live-­‐2012/4/
* City of Somerville, Fiscal Year 2015 Somerville Budget Overview, City of Somerville. Available online [http://www.somervillema.gov/sites/default/files/documents/fy15-­‐](http://www.somervillema.gov/sites/default/files/documents/fy15-)mayors-­‐budget-­‐ presentation.pdf
* Keane Jr. Thomas M, “The Model City”, The Boston Globe, May 14, 2006. Available online [http://www.somervillema.gov/sites/default/files/Best%20Run%20city%208-­‐](http://www.somervillema.gov/sites/default/files/Best%20Run%20city%208-)12.pdf

ASSIGNMENT:

* ABC TUTORIAL #2
* CASE: Somerville Traffic Unit: Using Activity-­‐Based Budgeting to Improve Performance.

GUEST: Mayor Joe Curtatone, Mayor of Somerville

## – Wednesday, February 8th

**Topic: Activity-Based Costing Clinic**

CRITICAL READING: Foss Park Case

OPTIONAL: UN Budget Overview

## – Monday, February 13th

**SHORT QUIZ** Covering Classes 1-­‐6 (Variance Analysis, Activity-­‐Based Costing)

# Topic: Revenue Forecasting; Capital Budgeting

After the quiz we will do an introduction to revenue forecasting and capital budgeting.

READINGS:

* Basic Capital investment Analysis 9-­‐198-­‐004
* Richard Brealey and Stewart Myers, Principles of Corporate Finance, 7th edition. McGraw-­‐Hill Irwin, c2003. Chapter 2, 2.1 pp. 14-­‐21 and Chapter 3, 3.1 – 3.3 pp. 33-­‐45.
* Richard Brealey and Stewart Myers, Principles of Corporate Finance, 7th edition, pp. 105 (bottom) to 107 (top)

ASSIGNMENTS**:**

* Complete “Foss Park” case
* “Buying Time” tutorial, HBS e-­‐learning <http://www.elearning.hbsp.org/>

## – Wednesday, February 15th

**Topic: Valuation; Laying Out Capital Budget**

CRITICAL READINGS:

* **CASE**: The Greening of DUMBO, Harvard Business School C 2010 (9-­‐410-­‐079)
* Robinson, Susan G., “Capital Planning and Budgeting”, in Petersen, John E. and Dennis R. Strachota, Eds. Local Government Finance: Concepts and Practices (Chicago: Govt Finance Officers Assn). 1991, Chapter 5, pp. 65-­‐84.

ASSIGNMENT: Complete “The Greening of DUMBO: Part A”

## – Wednesday, February 22nd

**Topic: Capital Budgeting Flows**

ASSIGNMENT: Complete “The Greening of DUMBO: Part B”

## – Monday, February 27th

**Topic: Capital Budgeting and Financing**

Integrating operating and capital budgets, further practice on capital budgeting and project financing. Why do decisions look different from the perspective of different stakeholders?

GUEST SPEAKER: Brian Shortsleeve, MBTA

ASSIGNMENT: Complete “Athens Ring Road” Case

ASSIGNMENT: Complete Case: A-­‐Rod: Signing the Best Player in Baseball, Harvard Business School C 2003 (5-­‐203-­‐091)

This case will enable us to look at using DCF analysis for projecting long-­‐term revenue and expenditure streams, and to introduce the importance of timing of cash flows and probability adjusted cash flows.

In 2000, the Texas Rangers, (a professional baseball team previously owned by George Bush), had an opportunity to sign a long-­‐term contract with arguably the best player of all time, Alex Rodriguez (A-­‐ Rod). The total cost of contract would be $252 million, which would have made A-­‐Rod the highest paid player of all time. In this case, you will examine A-­‐Rod’s contract using probability analysis to determine the winning/cost ratio and a discounted cash flow estimation to determine true value of A-­‐Rod.

You will prepare the A-­‐Rod case using the answer key template on the course website in Excel spreadsheet format.

Core Case Questions: All teams must work out the answers to the following questions:

1. What is the pre-­‐tax present value of the incremental costs of signing Alex Rodriguez?
2. How many extra tickets do you expect the Rangers to sell each year if they sign Rodriguez? What is the PV of those additional sales? (Use the regression charts provided in the key template.)
3. What is the increase in the probability of the Rangers of participating in the American League Championship Series and the World Series? What are the expected pre-­‐tax cash flows and the associated pre-­‐tax PV? (Please see the information on the playoff probabilities provided in the answer key template.)
4. If you find the PV of incremental costs exceeds the PV of incremental benefits, how much would ticket prices have to increase for the Rangers to break even?
5. Should the Texas Rangers sign Alex Rodriguez?

## – Wednesday, March 1st

**Topic: Innovations in Budgeting**

The structure of budgeting, including transparency and performance targets, can influence the development and structure of economic development. We will look at the theory of this, and also learn one specific technique for enhancing participation and setting performance targets: The Balanced Scorecard. This tool integrates quantitative and qualitative measures and is widely used in many non-­‐ profit and government organizations.

Do the readings and read the cases to understand how an organization uses this tool. Focus on: lead/lag indicators, integration of financial and qualitative measures, cascading objectives.

CRITICAL READINGS:

* **CASE:** New Profit Inc., Harvard Business School c 2001 (9-­‐100-­‐052)
* **Chapters: 12 and 16** “The Balanced Scorecard: Measures That Drive Performance”, by Robert S. Kaplan and David P. Norton, (Harvard Business Review Classic, July 2005) (posted on course website)
* **Chapter 4:** "A Mutually Reinforcing Loop: Budget Transparency and Participation in South Korea". pp.105-­‐128, by Jong-­‐Sung You and Wonhee Lee in *Open Budgets: The Political Economy of Transparency, Participation and Accountability* (Sanjeev Khagram, Archon Fung, Paolo de Renzio, Brookings 2013).

OPTIONAL READINGS:

* Kaplan, Robert and David Norton, “Strategy Scorecards in Nonprofit, Government, and Health Care Organizations” HBSP, ISBN-­‐13:978-­‐1-­‐4221-­‐1615-­‐9 1615BC
* Kaplan, Robert S., "Strategic Performance Measurement and Management in Nonprofit Organizations", Nonprofit Management and Leadership, 11(3), (New York: Jossey-­‐Bass Inc., Publishers, © 2001), pp. 353-­‐370. (Posted on course page)
* Marc Robinson, “Performance Budgeting Models and Mechanism”, in Marc Robinson (ed).

*Performance Budgeting: Linking Funding and Results*, IMF 2007, pp. 1-­‐20. (On course website)

* Jones, David. “Performance Measurement and Budgetary Reform in the Singapore Civil Service”, in the Journal of Public Budgeting, Accounting and Financial Management, vol. 13, No. 5, pp. 485-­‐511, Winter 2001. (Posted on course page)

## – Monday, March 6th

## Topic: Course Review

READINGS:

* Case: St. Xavier
* Case: Bartlett Revisited Yet Again
1. ***– Wednesday, March 8th***

 **FINAL EXAM**

Final exam during Class. You may bring 1 page of notes (2-­‐sides) and a calculator. Cell phones may NOT

be used as calculators. The exam will cover revenue forecasting, valuation, cash flows, capital budgets, and balanced scorecard.