

# **Introduction**

Agribusiness Finance

LESE 306

Fall 2008



### **John B. Penson, Jr.**

Regents Professor and Stiles Professor of Agriculture in the Department of Agricultural Economics at Texas A&M University. Received his Ph.D from the University of Illinois. Dr. Penson conducts research in the areas of finance and the macroeconomics of agriculture.

**Special Focus:** Credit analysis, macroeconomics of agriculture.

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**Classes Taught:** [AGEC 430 - Macroeconomics of Agriculture](#) and [LESE 306 - Agribusiness Finance](#).

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College of  
Agriculture and  
Life Sciences

# Department of Agricultural Economics

Academic Programs - Texas A&M University

## LESE 306

### Agribusiness Finance

### Fall Semester, 2008

Students can find helpful information on:

- |                                   |                                    |
|-----------------------------------|------------------------------------|
| <a href="#">Syllabus</a>          | <a href="#">Booklet</a>            |
| <a href="#">Slide Shows</a>       | <a href="#">Remaining Schedule</a> |
| <a href="#">Sample Exams</a>      | <a href="#">Problem Answers</a>    |
| <a href="#">Study Guide</a>       | <a href="#">Presentations</a>      |
| <a href="#">E-mail Instructor</a> | <a href="#">Problems</a>           |

Links on our  
course website

[306 ANNOUNCEMENTS](#)

**Course Syllabus**  
**LESE 306**  
**Agribusiness Finance**  
**Fall 2008**

**Instructors:**

Dr. Doo Bong Han  
Head, Department of Food and Resource Economics  
Korea University

Dr. John B. Penson, Jr.  
Regents Professor and Stiles Professor of Agriculture  
Department of Agricultural Economics  
Texas A&M University

**Website for Course Information:**

<http://agecon2.tamu.edu/people/faculty/penson-john/306LESE/pens306.htm>

LESE 306 course information can be found throughout the semester by clicking on the above web link. We will make announcements when new information is posted on this site and the class homepage at ECU.

**Course Requirements:**

There will be two examinations in this course: (1) a mid-term exam during mid-term exam week, and (2) a final exam given during finals week. The final exam will be comprehensive in scope.

In addition to these two exams, you will be required as a member of a team to make one formal presentation before the class and submit a brief summative report to Dr. Han at the end of the semester. This presentation will be based on your team's analysis of an investment opportunity, including its economic and financial feasibility under conditions of risk. More specifics about presentation requirements are discussed later in this syllabus.

**Grading:**

There will be 500 points possible in this course. This total is determined as follows:

Team presentation	100 points
Mid-term exams	100 points
Pop quizzes	50 points
Class participation	50 points
Final exam	<u>200 points</u>
Total	500 points

You can always determine your grade in this class by dividing the total points achieved on a particular date by the total possible points available at that time. Final grades according to the following distribution:

- A+ 95 – 100 percent
- A 90 – 94 percent
- B+ 85 – 89 percent
- B 80 – 84 percent
- C+ 75 – 79 percent
- C 70 – 75 percent
- D+ 65 – 69 percent
- D 60 – 64 percent
- F Less than 60 percent

### **Course Outline:**

The general objective of this course is to cover basic concepts in agribusiness finance, including the application of managerial accounting, understanding economic growth determinants, the valuation of investment opportunities, and the financing of these opportunities. The order of topics covered is:

#### **Part 1: Managerial Accounting Fundamentals**

- Basic structure of key financial statements
- Financial statement linkages
- Measurement, interpretation and application of key financial indicators
- Cost accounting concepts
- Enterprise and the master budgets
- Historical and comparative analysis
- Short term pro forma cash flow analysis

#### **Part 2: Economic Growth Concepts**

- Optimal current input and product combinations
- Long run expansion, the long run planning curve and size economies
- Economic growth model and constraints to growth



- Cost of capital and optimal capital structure
- Economic externalities
- Market equilibrium fundamentals
- Business forecasting methods
- Simulation of forecasting models

### **Part 3: Valuing Investment Opportunities**

- Time value of money and selected applications
- Capital budgeting methods
- Measurement of annual net cash flows and terminal value
- Purchase of depreciable assets and real estate
- Optimal asset replacement age and lease versus buy
- Pro forma sensitivity analysis
- Risk-return preference function
- Business and financial risk premiums
- Ranking investment opportunities



#### **Part 4: Financial Markets and Sources of Capital**

- Financing investment projects
- Internal and external sources of capital
- Financial institutions and financial intermediation
- Lender credit standards and credit scoring
- Credit analysis – a lender's perspective

#### **Part 5: Team Presentations**

- Class divided into teams comprised of 4-5 students
- Develop features of a startup business, including the product(s) it will sell and the expected annual costs and returns based on topics covered in class.
- Assess the economic and financial feasibility of this new business under expected market conditions.
- Assess the sensitivity of this feasibility to varying business conditions related to changing externalities
- Prepare a Power Point presentation demonstrating the feasibility of investment to the rest of the class.
- A 2-3 page executive summary describing the results of your feasibility analysis is due last day of class.

**Other issues:**

- No textbook
- Handouts dealing with each topic will be available on our website. You are encouraged to print them and bring them to class.