

Assignment #1 – MBA Choices in Finance

Assigned Class 2 – Due 11:55pm on Sunday Week 4

75 Points – two page paper

David Jetter graduated from college six years ago with a finance undergraduate degree. Although he is satisfied with his current job, his goal is to become an investment banker. He feels that an MBA degree would allow him to achieve his goal. After examining schools, he has narrowed his choice to either Prentice University or Mount Alliance College. Although internships are encouraged by both schools, to get class credit for the internship, no salary can be paid. Other than internships, neither school will allow its students to work while enrolled in its MBA program.

David currently works at the money management firm of Dewey and Louis. His annual salary at the firm is \$50,000 per year, and his salary expected to increase at 3 % per year until retirement. He is currently 28 years old and expects to work for 40 more years. His current job includes a fully paid health insurance plan, and his current average tax rate is 26 %. David has savings account with enough money to cover the entire cost of his MBA program.

The Ritt College of Business at Prentice University is one of the top MBA programs in the country. The MBA degree requires two years of full time enrollment at the university. The annual tuition is \$65,000, payable at the beginning of each school year. Books and other supplies are estimated to cost \$3000 per year. David expects that after graduation from Prentice, he will receive a job offer for about \$110,000 per year, with a \$20,000 signing bonus. The salary at this job will increase at 4 % per year. Because of the higher salary, his average income tax rate will increase to 31 %.

The Bradel School of Business at Mount Alliance College began its MBA program 16 years ago. The Bradel School is smaller and less well known than the Ritt College. Bradel offers an accelerated, one – year program, with a tuition cost of \$80,000 to be paid upon matriculation. Books and other supplies for the program are expected to cost \$4,500. David thinks that he will receive an offer of \$92,000 per year upon the graduation, with an \$18,000 signing bonus. The salary at this job will increase at 3.5 % per year. His average tax rate at this level of income will be 29 %.

Both schools offer a health insurance plan that will cost \$3,000 per year, payable at the beginning of the year. David also estimates that room and board expenses will cost \$2,000 more per year at both schools than his current expenses, payable at the beginning of each year. The appropriate discount rate is 6.5 percent.

1. How does David's age affect his decision to get an MBA? Explain why?
2. What other, perhaps non- quantifiable factors affect David's decision to get an MBA? Explain in detail.

3. Assuming all salaries are paid at the end of each year, what is the best option for David – from a strictly financial standpoint? Explain why in detail with calculations.
4. David believes that the appropriate analysis is to calculate the future value of each option. How would you evaluate this statement? So what is the future value of each option?
5. What initial salary would David need to receive to make him indifferent between attending Prentice University and staying in his current position? Explain in detail with calculations.

Students will be graded on their ability to cite examples from the text or websites (except Wikipedia). Students are to follow the guidelines for two page papers (which means all papers will have three sections: Introduction, Analysis and Conclusion). Place the answers to the **questions in the analysis (you can number them which would help the instructor grade it)** and make certain you have all the details for the calculations so the instructor can follow your thoughts. All papers are to use APA standards and have at least three citations.

You must upload your file to Blackboard under Week2 Assignments. Go to the Assignment, scroll down to “Attach Local File” and click Browse to select YOUR file, then hit SUBMIT.

Evaluation Criteria for: Papers			
Elements of Paper-- Individual Assignments 1, and 2, 75 points each	WD “A” 75 to 67.5 Points	Dev “B” 67.4 to 60 Points	NSW “C or lower” 59 to 52.5 Points or lower
Introduction (10%)	Provides an interesting introduction to the work. Clearly states the purpose of the work.	Provides a somewhat clear introduction to the work. Somewhat explains the three to five main points of analysis	Provides no clear direction for the paper. Does not explain the three to five main points of analysis to follow.
Analysis (50%)	Clearly and fully states the problem and the recommendation. Makes a clear recommendation	Somewhat describes the problem and the recommendation. Makes an unclear	Provides no real clarity or recommendation. Does not make a clear recommendation or show

	for the future. Connects to concepts presented in the texts and class discussion.	recommendation. (Or may leave one or two of these out). And somewhat connects this to the research, and the texts.	how this connects to the research, text.
Conclusion (20%)	Connects to the introduction in an interesting way. Is short and encompasses all of the main points in the paper.	Brings in new ideas that are not highlighted in the paper. Somewhat connects with the introduction and the analysis sections of the paper.	Brings in new ideas that are not highlighted in the paper. Does not connect with the introduction and analysis sections of the paper.
Grammar, Speech Patterns, Punctuation and APA (20%)	Clearly uses proper grammar, APA for in text citations and for all references. The paper is interesting and easy to read.	Has more than three errors in APA, grammar and or punctuation.	Has more than four errors in APA, grammar and or punctuation.

N S W = Needs Significant Work

D = Developing

WD = Well Developed