

**Fall 2003**  
**Hong Kong University of Science and Technology**  
**FINA 511**  
**Fundamentals of Financial Management (M Sc FA)**  
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**I. Objective:**

The primary purpose of this course is to examine and understand the process of valuation of real and financial assets by focusing on concepts and analytical problem solving techniques. The institutional aspects (Chapters 14, 15 and 25) --- usually descriptive in nature---will only be discussed as necessary.

**II. Topics Covered: (numbers within bracket indicate chapter numbers)**

Specifically, the following topics will be covered through lectures, case analyses and end of chapter problems

1. Introduction to Valuation (1), Time value of Money (3) and Financial Analysis (29)
2. Capital Budgeting Criteria (5), Relevant Cash Flows (6) and Risk Analysis (10)
3. Valuation of corporate securities: Bonds (3) and Stocks (4)
4. Portfolio Theory and CAPM (7), Cost of Capital (9 and 19)
5. Notion of market efficiency (13), capital structure (17 and 18)
6. Dividend Policy (chapter 16)

**III. Course Material and Pedagogy:**

Your packet contains the following:

- a. Detailed Course Outline with due dates for homework, cases and quizzes (See Tables I and II)
- b. Cases -- A – I will do them in class
- c. Cases – B – You will do them in groups of 5-6 persons
- d. Answers to selected end of chapter problems (Table II, Col. 5)
- e. Copies of transparencies

I will also post some material on web including answers to homework problems after you have submitted them.

The textbook “**Principles of Corporate Finance**” by Brealey and Myers, 7ed., McGraw-Hill, 2003 has excellent web based resources for the students, which can be found at [www.mhhe.com/bm](http://www.mhhe.com/bm).

**To derive maximum benefit, it is essential that prior to each class you review the transparencies, examine as many quiz and selected end-of-chapter problems with solutions provided in the reading packet (Table II, Col. 5), prepare answers to assigned problems, and prepare an outline of cases on A list. You should use more as a resource for clarification and extensions of issues discussed in class.**

**IV. Case Analysis:**

The essence of case analysis is to examine the facts and apply the concepts discussed in class in arriving at recommendations to solve major and minor issues presented in the case. In general, the following guidelines will apply to all case studies:

- a. Each group is required to submit two written case analyses (cases B) not exceeding **three double-spaced** typed pages, excluding spreadsheets, tables, charts, graphs etc. on the dates given in Table I.
- b. It is helpful if you think of your team as a consulting firm and me as your client. The suggested questions are to get you started. However, like any consulting assignment, your report should be organized and structured as if you were actually presenting it to your client. **Merely answering the questions is not adequate and, therefore, unacceptable. I may call on your group to present your case analysis to the entire class.**
- c. The written case reports will be graded based on the following criteria:

Weight	Category
30%	Written presentation, organization, readability, grammar and relevance
30%	Logic and justification underlying your recommendations
40%	Numerical Analysis

- d. You are responsible for selecting your group members. Each member of the group will receive the grade earned for the written report. While groups provide excellent opportunity for collaborative learning, they also create significant potential for “free rider” problem. Therefore, it is important that you be careful in selecting your group members. To minimize “free rider” problem (there is no perfect solution to the best of my knowledge), **I shall require you to provide me with an evaluation of all group members including yourself at the end of semester.** This will be used to adjust your final grade. Please also review a related item VI C below.

**V. Prerequisites:**

Acct. 515 (Accounting Foundations) and ISMT 552 (Statistics for Financial Analysis). In addition, I hope you are proficient in using a calculator with time value of money and statistical functions.

**VI. Grading:**

- |           |                             |             |          |      |
|-----------|-----------------------------|-------------|----------|------|
| a. Items: | Group Assignments (2 cases) | Quizzes (2) | Homework | Exam |
| Weights:  | 40%                         | 30%         | 10%      | 20%  |
- b. The letter grades will be based on your weighted average score as per following scale:
- |     |       |       |       |     |
|-----|-------|-------|-------|-----|
| >90 | 81-90 | 71-80 | 61-70 | <60 |
| A   | B     | C     | D     | F   |
- c. There are two exceptions (to mitigate free rider problem) to the above scale. First, in order to receive an A in the course, you must earn an average grade of A (> 90%) in examinations and quizzes. Second, as I mentioned earlier, I will adjust your final grade based on group evaluation.
- d. The plus and minus cutoffs within a grade will be at my discretion.
- e. The final exam will test numerical problem solving skills and understanding of concepts. The numerical problems in the exam will be similar to end-of-chapter problems.
- f. There will be **no make up examinations or quizzes**. Also, **no late assignments** will be accepted.
- g. **I will give three quizzes lasting about 45 minutes each. I will drop the quiz with the lowest score.**
- h. Assigned homework problems are due on indicated dates in Table II. I am assigning 10% of grade as incentive for you to read the assigned material and **just try** to do the problems before I discuss them in class. **You can choose to submit the homework as a group.**
- i. I will answer any questions regarding returned graded assignments as long as such questions are asked no later than one week from the date the assignments are returned.

**VII. General Comments:**

- a. If you miss a class, or plan to come late, please arrange to find from one of your group members regarding announcement(s) made and/or material covered in class.
- b. All pagers and mobile phones must be switched off during the class.
- c. During exam and quizzes you must rely entirely on your own intellectual endowment. There are serious consequences, including failing grade, for not meeting university standards for ethical conduct.

**To conclude I want to quote two limericks, which you might find useful and relevant:**

**I keep six honest men  
(They taught me all I knew)  
Their names are Why, What and When  
And How and Where and Who.**

**A student of business with tact  
Absorbed many answers he lacked  
But acquiring a job; he said with a sob  
“How does one fit answer to the fact”**

**Table I**

**Course Schedule**

Date	Topic	Chapters	Cases	Remarks
11/1	Introduction: TVM and Financial Statement Analysis	1-3, 29	Investment Detective (A)	
11/8	Capital Budgeting & Risk	5, 6 & 10	New Economy Transport (A)	
11/15	Capital Budgeting—Cont.			Quiz 1 (Ch. 1,3,5) <sup>2</sup>
11/22	Portfolio Theory and CAPM	7 and 9	Holiport (A) <sup>1</sup> , Bod Products (B)	
11/29	Weighted Cost of Capital /RADR	9, 19	Proctor & Gamble (A)	Quiz 2 (Ch. 7, 9)
12/ 6	Valuation of Financial Securities	3, 4,	Equity Valuation (A), Pepsico (B)	
12/13	Capital Str. and Dividend Policy	13-18,		Quiz 3 (Ch. 3, 4) <sup>3</sup>
12/20	Exam			

1. Case available in the textbook.
2. Quiz 1 will include chapter 3, sections 1 through 4.
3. Quiz 3 will include chapter 3, section 5

**Table II**

**Readings and Homework Assignment**

Readings: Section Numbers (Cols. 1-4)				End-of-Chapter Problems (Cols. 5-7)			
1	2	3	4	5	6	7	
Chapter	Required	Review	Omit	Answers Given	Homework Assignments	Additional	
					Assigned Problems	Due date	
1	1.1-1.5					<b>Nov 1</b>	
2		2.1, 2.3-2.5	2.2				
3	3.1-3.4			3,4, 24,1**	9,12,27		15,19,21
29	29.1-29.6				30, 32 & 33		
5	5.1-5.3		5.4	8	7,9	<b>Nov 8</b>	
6	6.1-6.2	6.3 <sup>a</sup>	6.4	6	9,11,15		4 3,4
10	10.1		10.2-10.3		1,2,3,7	<b>Nov 15</b>	
7	7.1-7.4		7.5	6,15	1**	<b>Nov 22</b>	
9	9.1-9.3		9.4-9.6	17	7,9		3, 7 & 17 1,1**
19	19.1-19.3	19.6	19.4-19.5		4,5,6,14	<b>Nov 29</b>	
3	3.5				31,32,33	<b>Dec 6</b>	
4	4.1-4.4	4.5		7, 23	4, 8		2, 13
13	13.2,13.4	13.1	13.3	3,7,11		<b>Dec 13</b>	
14		14.1-14.4					
15		15.1-15.5					
16	16.3-16.7	16.1-16.2			2,3,6,17		11,12,14,2**
17	17.1-17.3			1,3,14	10,11,12,13		2,4,5,6,8
18	18.1, 18.3-4		18.2	12	10,11,15		5,6,8,16

- a. Only a small portion of 6.3 (pp. 131-133) will be discussed.
- b. Questions marked \*\* are from challenge section of the end-of- chapter problems.