

**Hong Kong University of Science and Technology
School of Business and Management**

FINA 110: Fundamentals of Business Finance

Fall 2006

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Other time by appointment

Course website: <http://webct.ust.hk~final10>

Lectures: L1: Tuesdays and Thursdays, 12:00-1:20 pm, LTC
L2: Tuesdays and Thursdays, 4:30-5:50 pm, LTE

Course Description

This is an introductory finance course which aims to provide students with a good understanding on the basic concepts and analytical techniques of business valuation. Starting with analysis of financial statements, students will first study how corporations make short term financial decisions. Then a fundamental concept for finance, time value of money, is introduced and the discounted cash flow technique will be applied to investment decisions such as project analysis and securities valuation. Finally, students will learn another fundamental finance concept, risk and return trade-off, and the application of this principle in long term corporate financial decisions including financing decisions, capital structure decisions, and dividend policy decisions.

Course Materials

1. Required Textbook: *Essentials of Corporate Finance* by Ross, Westerfield and Jordan. McGraw-Hill/Irwin, fifth edition, 2006.
Note: This textbook contains information about U.S. financial markets, institutions and corporate finance practices. These will not be covered in examinations.
2. Course website: <http://webct.ust.hk~final10>
You should visit the website regularly because many important information will be available on the course website including Syllabus, Announcements, Lecture Notes, Spreadsheets, Solutions to End-of-Chapter Problems, Cases, and Your Performance. Lecture notes are posted at least two days prior to classes while solutions to problems are posted one week after the relevant topics are covered in classes.

3. Financial calculator: recommended models – HP 10B/ TI BA II Plus
It is strongly recommended that you buy a basic financial calculator and become proficient in using its time value of money and statistical functions. There will be a workshop on the use of financial calculators at the beginning of the semester.
4. Online Learning Center at publisher’s website: www.mhhe.com/rwj
The website offers several valuable learning tools. The Self-Study Software provides 75-100 questions per chapter which allows you to test your knowledge. The Interactive FinSims simulates how to solve key concepts to help reinforce the most important corporate finance topics.
5. Other relevant websites:
hk.finance.yahoo.com (current market information and historical price data)
www.financeasia.com(current news and information on financial services industry)
www.hkex.com.hk(Hong Kong Exchanges and Clearing Ltd.)
www.sfc.hk (Hong Kong Securities and Futures Commission)

Assessment

I. Cases

- There will be two group case analyses during the semester. The case and specific questions will be posted on WebCT on the scheduled dates. Each group will need to submit ONE set of typed answers in word file via **e-mail** to Mr. Leung **before 10am** on the due dates. Late submission will receive heavy penalty. (20% of the maximum marks will be deducted for each day of delay.)
- All members of a given group will receive the same marks for their work.
- Forming groups: You should form groups of 4 to 5 students for the case analyses. You are free to choose your group members but a list must be submitted to Mr. Leung **via emails between Sept 18 (Monday) and Sept 21 (Thursday)**. Once the list is submitted, no change in group members will be accepted. You will be able to view the confirmed group list on WebCT later on. Students whose names are not on submitted lists will be assigned into groups by Mr. Leung.

II. Quizzes

- While no attendance will be taken during classes, pop quizzes will be given randomly in different class sections.
- The best four quizzes out of five will be counted towards your grade.
- There will be NO make up quizzes.

III. Examinations

- There will be a mid-term and final examination in this course. The mid-term exam is 2 hours long while the final exam is 2.5 hours long. The final exam is comprehensive with more emphasis on topics covered after the mid-term exam.
- The format for examinations will be multiple choice. Questions are designed to test your understanding of basic finance concepts and principles and to test your ability to solve numerical problems using these concepts and principles.
- The examinations are closed book. Non-programmable financial calculators are allowed.
- There will be NO make up for the mid-term examination. For a student who has a valid reason for missing the mid-term exam, the final exam marks will be treated as

BOTH the mid-term and final examination marks. A student who misses the mid-term exam without a valid excuse will receive “zero” mark on the exam.

Assessment Weighting

Cases (2 group projects)	10%
Quizzes (best 4 out of 5)	5%
Mid-term examination	35%
<u>Final examination</u>	<u>50%</u>
Total	100%

Communication

You are welcome to discuss your questions with me or Mr. Leung. We are generally available immediately after class, during office hours, or by appointment. While you may also email us the questions, it may be necessary for you to visit us in the office in person if the questions cannot be answered properly in a few sentences. If a question deserves attention by all students, we will post its answers on the FAQ section on WebCT. You may also discuss questions with your classmates through the Discussion Board on the WebCT.

Academic Integrity

You must rely entirely on your own intellectual endowments during quizzes and exams. Cheating will not be tolerated and will result in serious consequences including failing grade and additional sanctions.

Classroom policies

This is an exceptionally large class. Please be co-operative and help to ensure that the class can progress with minimum disturbance.

1. Attendance

You are strongly recommended to regularly attend the class. Skipping classes will definitely hurt your performance because the exam questions are heavily based on materials covered in class.

2. Punctuality

You are expected to come to and leave the class **on time** as late arrival and early departure will be very disruptive to the class. If you need to come in late or leave early for various reasons, please do so quietly and sit in the last two reserved rows of the classroom.

3. Consideration

You must turn off your pagers and cell phones before entering the classroom. During classes, please do not talk with other students so that everyone can concentrate on the lecture. NO food or drink is allowed in the classroom.

How to succeed in FINA 110

- attend classes
- spend at least 6 to 9 hours per week studying **outside** the classroom
- read assigned textbook chapters prior to each class
- practice recommended end-of-chapter problems after the class
- review self-test questions and answers at the end of each chapter
- utilize tools on the Online Learning Center

Class and Assignment Schedule						
Week	Class	Day	Date	Topic	Textbook	Remark
1	1	Tu	5-Sep	Introduction	Ch 1	
	2	Th	7-Sep	Financial statements, taxes, and cash flow	Ch 2	
2	3	Tu	12-Sep	Working with financial statements	Ch 3	
	4	Th	14-Sep	Working with financial statements	Ch 3	
3	5	Tu	19-Sep	Working capital management	Ch 16	
	6	Th	21-Sep	Working capital management	Ch 16	groups formed
4	7	Tu	26-Sep	TVM	Ch 4	
	8	Th	28-Sep	DCF valuation	Ch 5	case 1 posted
5	9	Tu	3-Oct	DCF valuation	Ch 5	
	10	Th	5-Oct	NPV & other techniques	Ch 8	case 1 due
6	11	Tu	10-Oct	NPV & other techniques	Ch 8	
	12	Th	12-Oct	Making capital investment decisions	Ch 9	
7	13	Tu	17-Oct	Making capital investment decisions	Ch 9	
	14	Th	19-Oct	Review for mid term exam		
8	15	Tu	24-Oct	Mid-term exam (Chapters 1-5, 8, 9, 16) 6:30pm--8:30pm		no class
	16	Th	26-Oct	Interest rates and bond valuation	Ch 6	
9	17	Tu	31-Oct	Interest rates and bond valuation	Ch 6	
	18	Th	2-Nov	Equity markets and stock valuation	Ch 7	
10	19	Tu	7-Nov	Equity markets and stock valuation	Ch 7	case 2 posted
	20	Th	9-Nov	Securities trading in HK		
11	21	Tu	14-Nov	Some lessons from capital market history	Ch 10	
	22	Th	16-Nov	Risk and return	Ch 11	case 2 due
12	23	Tu	21-Nov	Risk and return	Ch 11	
	24	Th	23-Nov	Cost of capital	Ch 12	
13	25	Tu	28-Nov	Cost of capital	Ch 12	
	26	Th	30-Nov	Leverage and capital structure	Ch 13	
14	27	Tu	5-Dec	Dividends and dividend policy	Ch 14	
	28	Th	7-Dec	Review for final exam		
			TBA	Final exam (Chapters 1-14,16)		