

Hong Kong University of Science and Technology
School of Business and Management
FINA 514 - Advanced Topics in Financial Management

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Course Objectives: FINA514 covers advanced topics in corporate finance, with the focus on optimal corporate financial decisions. In particular, the course will cover: project evaluation; real options; capital structure; bankruptcy and financial distress; firm's payout policy, executive compensation; initial public offerings; and corporate governance.

Prerequisites: You would feel much more comfortable taking this class, if you have taken a class in Investments. Knowledge of basic derivatives is also helpful. I will also assume that you are familiar with Excel spreadsheets.

Required Text:

1. Financial Markets and Corporate Strategy, Second Edition, by Grinblatt and Titman (2002).
2. There is a reader packet for the course containing articles and case studies. We will distribute it after the end of drop class period.

Grading Policy: Your grade will be calculated as follows:

Problem Sets: 21%
Case Analysis: 28%
Final Exam: 46%
Class Participation: 5%

Problem Sets: There will be a total of three problem sets assigned (each worth 7% of your final grade). The problem sets have to be done individually. Working on these problem sets will help you to understand the class material better and will give you a solid preparation for the final exam. A hard copy of your solution (clearly indicating your student number and the student name in the upper right corner) has to be handed in at the beginning of class on the due dates. All pages have to be stapled together. No electronic submissions will be accepted. To understand the material better, you can also try solving some problems from the end of relevant chapters of the textbook.

Case Write-Ups: There will be a total of four cases assigned (each worth 7% of your grade). You can work on cases in groups of 4-5 people. Case write-ups have to be turned in at the beginning of each class at the due dates. Late submissions will not be graded.

You should be ready to present your case solution in class in a 15-minute presentation. We will draw couple of groups at random to do their presentations. At the end of the course, you will assess your group members on the contribution they made to the group assignments. Your group members' assessment of your contribution will enter into your case grade.

Final Exam: The final exam is a closed book exam but I will provide you with a cheat sheet that will contain all necessary formulas. I will give you the cheat sheet couple of days before the exam so that you can familiarize yourself with layout. You will need a simple calculator for the exam. You cannot take the final exam early and there will be NO MAKEUP exam for those who miss it.

Class Participation and Attendance: Your class participation will count 5% towards your final grade. An important pre-requisite for getting participation points is attending the class. You can not participate if you are frequently absent.

Please be on-time for the class. Coming to class late will lower your participation grade and I may call you more frequently to answer the questions in class.

Please switch off your cell-phones completely for the class time. It is very disruptive for the whole class and disrespectful to your classmates when your phone rings during the lecture.

Teaching Assistant

Teaching assistant for this course is Gina Kao. Her Email is ginakao@ust.hk and phone number 2358-7674. Gina will answer questions via E-mail and will meet with you by appointment.

Administrative Information

Office hours: I will hold office hours by appointment and will make announcements on the web. I will also be generally available after class to answer your questions.

Auditing: Students may not audit this class. If you want to take this class you have to be registered for a letter grade. Once registered, you can not expect to convert your status to auditing or expect to get an incomplete. Your only option is to drop the class during the allowed period.

Name Cards: There would be name cards in front of your seat each time you come to class. Please be attentive during the class, occasionally I will use cold calling using your name. Please do not remove the cards after class. It is our responsibility to take them away.

Email-List: Occasionally, we will send E-mails to the class E-mail list. If you are registered for this course, you should be automatically on the list. The E-mail should go to your HKUST e-mail account.

Class Webpage: The URL for the class page is <http://www.webct.ust.hk> . We will post important class information and materials there, including lecture notes, problem sets, solutions, handouts, etc.

Detailed Course Outline (subject to change)

1. (*September 9, 2006*) Overview of Financial Decisions
Review: The NPV Rule and Valuation of Riskless Cash Flows
Read: GT Chapter 9, 10
Valuation of Risky Cash Flows
Read: GT Chapter 11
2. (*September 16, 2006*) Forecasting Incremental Expected Cash Flows
Case Due & Class Presentations: Ocean Carriers, HBS Case #5-202-029
Taxes and Project Evaluation I (WACC)
Read: GT Chapter 13
3. (*September 23, 2006*) Estimating the Cost of Capital: Divisional Cost of Capital
Case Due & Class Presentations: Marriot Corporation, HBS Case #9-289-047
Taxes and Project Evaluation (APV)
Read: GT Chapter 13
4. (*September 30, 2006*) Real Options
Problem Set 1 Due
Read: GT Chapter 12
Read: Timothy Luehrman, Capital Projects as Real Options: An Introduction
5. (*October 7, 2006*) Real Options
Case Due & Class Presentations: Arundel Partners and the Sequel Project, HBS Case #9-295-074
Taxes and Debt Policy, Taxes and Distribution Policy
Read: GT Chapter 14-15
6. (*October 14, 2006*) Bankruptcy and Other Costs of Debt Finance
Read: GT Chapter 16
Problem Set 2 Due
Information Conveyed by Financial Decisions
Read: GT Chapter 19
Initial Public Offerings, Rights Issue
Read: Handout
7. (*October 21, 2006*) Capital Structure
Case Due & Class Presentations: Debt Policy at UST Incorporated, HBS Case #5-201-002
Problem Set 3 Due
Executive Compensation
Read: GT Chapter 18
Corporate Governance

- Read: Shleifer and Vishny (1997), A survey of Corporate Governance,
Journal of Finance, April
8. (October 28, 2006) Final Exam