

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

**FINA 110: Fundamentals of Business Finance**

**Fall 2007**

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**Instructor:** Professor Lynn Pi  
Office: Room 2456 (lifts 25-26)  
Phone: 2358 7687  
E-mail: [lynnpi@ust.hk](mailto:lynnpi@ust.hk)  
Office hours: by appointment

**TA:** Ms. Cher Ni  
Office: Room 3392 (lifts 17-18)  
Phone: 2358 7674  
E-mail: [cher@ust.hk](mailto:cher@ust.hk)  
Office hours: see tutorial information

**Course website:** <http://webct.ust.hk/~final110>

**Lectures:** L1: Tuesdays and Thursdays, 12:00-13:20, LTD  
L2: Tuesdays and Thursdays, 16:30-17:50, LTD

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### **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 in 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 financing decisions including cost of capital, capital structure, and dividend policy.

### **Course Materials**

1. **Required Textbook:** *Essentials of Corporate Finance* by Ross, Westerfield and Jordan. McGraw-Hill/Irwin, fifth edition, 2006. This book is **required** of all students since it will be used extensively throughout the course.  
Note: This textbook contains information about U.S. financial markets, institutions and corporate finance practices. These will not be covered in examinations.
2. **Homework Manager Access Card:** Each student is *required* to have an Access Card for use in logging on to Homework Manager, a software tool provided by the textbook publisher. Access Cards may be obtained in one of three ways: By purchasing a new textbook (the cost of the Card is included in the textbook price,) by presenting a used copy of the 5<sup>th</sup> Edition of the *Essentials* text and purchasing a Card at a discount price, or by purchasing a Card by itself.
3. **Financial calculator:** recommended models – HP 10B/ TI BA II Plus  
Financial calculators have built-in functions that save time in solving problems, and their use is permitted in examinations. We will use calculators in lectures. 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 offered by the Hong Kong distributor for Texas Instruments calculators at the beginning of the semester. In addition to the user manual, information about calculator use can be found on WebCT.

4. Course website: <http://webct.ust.hk~fina110>  
You should visit the website regularly because a lot of important information will be available on the course website including Syllabus, Homework submission schedule, Announcements, Lecture Notes, Spreadsheets, Solutions to End-of-Chapter Problems, and Your Performance. Lecture notes are posted at least three days prior to classes. Solutions to problems are posted the day after the Homework Manager assignment for the specific chapter is due.
5. Online Learning Center at publisher's website: [http://highered.mcgraw-hill.com/sites/0072946733/student\\_view0/index.html](http://highered.mcgraw-hill.com/sites/0072946733/student_view0/index.html)  
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.
6. Other relevant websites:  
[www.finance.yahoo.com.hk](http://www.finance.yahoo.com.hk) (current market information and historical price data)  
[www.financeasia.com](http://www.financeasia.com) (current news and information on financial services industry)  
[www.hkex.com.hk](http://www.hkex.com.hk) (Hong Kong Exchanges and Clearing Ltd.)  
[www.sfc.hk](http://www.sfc.hk) (Hong Kong Securities and Futures Commission)

## Grading

|   |            |
|---|------------|
| Homework Manager Assignments (10 out of 11) | 15%        |
| Mid-term examination                        | 35%        |
| <u>Final comprehensive examination</u>      | <u>50%</u> |
| Total                                       | 100%       |

### Homework Manager Assignments

- Homework Manager (HM) is a software tool that allows you to do end-of-chapter problems online. While the problems are identical in structure to the textbook problems, their numerical parameters will be different.
- There will be eleven HM assignments, each one pertaining to specific chapters in textbook. I will drop your weakest assignment and compute your assignments score based on your 10 best assignments.
- Each assignment consists of five end-of-chapter questions. You have three chances to attempt and have your assignment graded before each specified deadline. Your goal is to get all questions correct, if not in the first two attempts, in your third attempt. No late submission will be considered.
- You may use lecture notes, textbook, and other references when working on the assignments. However, this is an individual assessment and you must work on the problems alone without assistance from any other people. The TA and I will not answer questions regarding the assigned problems before the assignments are due.

- Further instructions on registering your personal class account and logging into the system to do the assignments are available in the “Homework Manager” section on WebCT

### 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. A basic formula sheet will be provided at the exam and it will be posted on WebCT beforehand so you know exactly what formulas are supplied. Financial calculators are allowed but programmable calculators or calculators with text display functions are NOT allowed.
- There will be NO make up for the mid-term examination. In the case if a student misses the mid-term examination due to extenuating circumstances beyond his or her control, 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 for the mid-term exam.

### **Class Participation**

You are strongly recommended to regularly attend the lectures. Skipping classes will definitely hurt your performance because the homework and exam questions are heavily based on materials covered in class. Moreover, class participation is important for your learning experience and highly encouraged. It helps you to think *actively* rather than *passively*, keeps you involved and motivated rather than removed and disinterested. There will be short exercises given in the lectures to make the class more interactive, and the answers will only be provided in class.

### **Class Conduct**

This is an exceptionally large class. To foster the best learning environment and help develop your professional skills, you should abide by the following codes of conduct:

#### Punctuality

You are expected to come to and leave the class **on time** as late arrival and early departure are rude and 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.

#### Consideration

- You must turn off your pagers and cell phones before entering the classroom. Please do not talk with other students so that everyone can concentrate on the lecture.
- NO eating or drinking is allowed in the classroom.

### **Academic Integrity**

Academic integrity and honesty are critical values in upholding HKUST's reputation as a community of scholars and its claim to the "intellectual property" created by staff and students. As a student of HKUST, you are committed to the Academic Honor Code. Obviously, cheating will not be tolerated. If you are caught cheating during the exams, you will receive zero credit and may face further disciplinary action.

### **Communication**

You are welcome to discuss your questions with me or the TA. We are generally available immediately after class, during office hours, or by appointment. While you may also email us the questions, some questions might not be properly answered in a few sentences and so I may not reply. Generally it will be better if you ask the question in class, or visit me and the TA during the office hours. You may also discuss questions with your classmates on the Discussion Forum on WebCT.

### **How to succeed in FINA 110**

- Attend classes
- Read assigned textbook chapters prior to each class
- Spend at least 6 to 9 hours per week studying **outside** the classroom
- Review the self-test questions and answers at the end of each chapter
- Practice recommended end-of-chapter problems after the class
- Utilize tools on the Online Learning Center

## Class Schedule

| <b>Week</b> | <b>Class</b> | <b>Day</b> | <b>Date</b> | <b>Topic</b>   | <b>Textbook</b> |
|-------------|--------------|------------|-------------|--|-----------------|
| 1           | 1            | Tu         | 4-Sep       | Introduction   | Ch 1            |
|             | 2            | Th         | 6-Sep       | Financial statements, taxes, and cash flow                       | Ch 2            |
| 2           | 3            | Tu         | 11-Sep      | Working with financial statements                                | Ch 3            |
|             | 4            | Th         | 13-Sep      | Working with financial statements                                | Ch 3            |
| 3           | 5            | Tu         | 18-Sep      | Working capital management                                       | Ch 16           |
|             | 6            | Th         | 20-Sep      | Working capital management                                       | Ch 16           |
| 4           | 7            | Tu         | 25-Sep      | TVM  | Ch 4            |
|             | 8            | Th         | 27-Sep      | DCF valuation  | Ch 5            |
| 5           | 9            | Tu         | 2-Oct       | DCF valuation  | Ch 5            |
|             | 10           | Th         | 4-Oct       | NPV & other techniques   | Ch 8            |
| 6           | 11           | Tu         | 9-Oct       | NPV & other techniques   | Ch 8            |
|             | 12           | Th         | 11-Oct      | Making capital investment decisions                              | Ch 9            |
| 7           | 13           | Tu         | 16-Oct      | Making capital investment decisions                              | Ch 9            |
|             | 14           | Th         | 18-Oct      | Review for mid term exam   |                 |
| 8           | 15           | Tu         | 23-Oct      | <b>Mid-term exam (Chapters 1-5, 8, 9, 16)<br/>6:30pm--8:30pm</b> |                 |
|             | 16           | Th         | 25-Oct      | Interest rates and bond valuation                                | Ch 6            |
| 9           | 17           | Tu         | 30-Oct      | Interest rates and bond valuation                                | Ch 6            |
|             | 18           | Th         | 1-Nov       | Equity markets and stock valuation                               | Ch 7            |
| 10          | 19           | Tu         | 6-Nov       | Equity markets and stock valuation                               | Ch 7            |
|             | 20           | Th         | 8-Nov       | Some lessons from capital market history                         | Ch 10           |
| 11          | 21           | Tu         | 13-Nov      | Some lessons from capital market history                         | Ch 10           |
|             | 22           | Th         | 15-Nov      | Risk and return  | Ch 11           |
| 12          | 23           | Tu         | 20-Nov      | Risk and return  | Ch 11           |
|             | 24           | Th         | 22-Nov      | Cost of capital  | Ch 12           |
| 13          | 25           | Tu         | 27-Nov      | Cost of capital  | Ch 12           |
|             | 26           | Th         | 29-Nov      | Leverage and capital structure                                   | Ch 13           |
| 14          | 27           | Tu         | 4-Dec       | Dividends and dividend policy                                    | Ch 14           |
|             | 28           | Th         | 6-Dec       | Review for final exam  |                 |
|             |              |            | TBA         | <b>Final exam (Chapters 1-14)</b>                                |                 |