

The Hong Kong University of Science & Technology
Department of Finance
FINA 514: Advanced Topics in Financial Management
Fall 2009

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Office hours: Tuesday 13:30 – 15:30
or by appointment

Schedule

Section 1 (L1): Tuesdays 19:00–22:20 15/F HK Club Bldg. Central
Section 2 (L2): Saturdays 9:00–12:20, Room 3008

Course Objective

The objective of this course is to introduce the students to the long term financing decision of the firm and to the interaction between the firm's investment and financing decisions. Emphasis is placed on financial theory and its empirical implications. Scientific evidence relating theory and practice will be presented and discussed.

Firms can choose to finance their investments from internal or external sources. External financing requires selling claims against the future cash flows of the firm to individuals and institutions. We consider first the affect of taxes, transactions costs, and information costs on the firm's choice of financial structure. We then turn to the affect of financing on the cost of capital and the valuation of the firm's future cash flows. We also apply option valuation techniques to value flexibility firms have to expend or curtail their future operations.

The firm's dividend policy is an integral part of its financing decisions. We discuss the factors affecting the decision to pay dividends and the difference between cash dividends and share repurchase as alternative ways firms use to distribute cash to shareholders.

Topics covered in the course: The choice of capital structure, the cost of capital, the valuation of real options, and dividend policy.

Prerequisites

ACCT515 and FINA521 (or ACCT510 and FINA512)
Students should be familiar with the material in chapters 4-12 in the course text book.

Readings

Required Text

- [BD] Jonathan Berk and Peter Demarzo, *Corporate Finance*, Pearson Education. 2007.
- Case studies
- Articles from local and international press to be assigned during the course and placed on LMES

Supplementary Readings

- Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy*, McGraw Hill, 2nd edition, 2004
- Asian Wall Street Journal

Required readings of journal articles will be assigned in class. Students are also expected to read The Asian Wall Street Journal or a similar publication on a regular basis since the topics covered in this course are discussed daily in the business press. We will allocate some of the class time to the discussion of current events.

Grading

Your grade in this course will be based on

Problem Sets (2)	10%
Case analysis (3)	30%
Class participation	10%
Final exam	50%

Case write-ups

The assigned cases and homework should be prepared in groups of no more than 5 members. The names of group members must be handed in by the end of the second class. Students who are not in any group of size 5 will be combined in groups in an arbitrary manner. One group of size smaller than 5 may be necessary if the number of students enrolled in your session is not divisible by 5.

Group members are required to sit together in class, work together on problem sets and case reports, and have with them a copy of the case and the report for class discussion.

Each case counts equally (10%) towards the final grade. A set of questions to guide your analysis will be provided for each case. Answer to the discussion questions should not exceed 3 pages, (plus exhibits, if required), font 12, 1" margin on the left and right hand side of the page.

Case write-ups are to be submitted electronically through LMES on or before the due dates indicated below. No late assignment are accepted, except under extraordinary conditions, and agreement from me is required before the stated due date.

Please pay attention to the following points when you prepare a case report.

1. Mark clearly the number of the question you are referring to.
2. When necessary, you should have a section called “Key Assumptions” where you list the important assumptions you have made throughout a specific answer (not for the entire case). You have to emphasize where these assumptions are necessary in your analysis.
3. Charts or tables do not constitute an answer – they are considered as supporting material for your analysis.
4. All tables and charts should have a descriptive title, should be numbered and appear at the end of the report. There must be “Explanatory Notes” following each table or chart where the calculations in the table or chart are explained in details.
5. The analysis in the report should make clear reference to the charts and tables. Including table or chart number, and the main result taken from the table or chart to support you answer.
6. The best advice for a good report is that each member of the team reads the report **before** submitting it. If you have time read it again, and if you have more time read it again and again and again.....

Problem Sets

There are 2 group problem sets, each counting equally (5%) towards the final grade. A copy of the group's solution should be submitted electronically through LMES on or before the due dates indicated below.

Late assignments will not be accepted. Solutions will be available on LMES after the due dates.

In addition, a list of recommended end-of-chapter problems is attached to this outline. The solutions will be made available to you and will be discussed during class sessions. These problem sets together with the end of chapter problems provide a good preparation for the final exam and you are strongly encouraged to attempt to solve them individually.

Final Exam

The final exam will take place in our last meeting. You are allowed 1 page (front and back) of hand written notes and a calculator.

Detailed Schedule

Week 1 (September 1/5)

- a. Introduction and overview of corporate financing decisions
- b. The choice of financing mix in a perfect capital market

Readings: [BD] Chapter 9.5, 14

Week 2 (September 8/12)

Problem set I due

- a. The effect of corporate taxes on the choice of financing mix
- b. The effect of personal taxes on the choice of financing mix
- c. financing mix and the cost of capital

Readings: [BD] Chapter 15, 18.1-18.3

Week 3 (September 15/19)

Case 1 due September 15 at 7 PM

- a. The effect of bankruptcy costs on the choice of financing mix
- b. The effect of information asymmetry on the choice of financing mix

Readings: [BD] Chapter 16, 20.6, 24.1, 24.3, 24.4

Week 4 (September 22/26)

Problem set II due

An introduction to real options

- i. Timing option
- ii. Growth options
- iii. Abandonment option

Readings: [BD] Chapter 22

Week 5 (September 29/October 3)

Case 2 due September 29 at 7PM

Dividend policy

- i. Cash dividends
- ii. Share repurchase
- iii. Stock dividends and stock splits

Readings: [BD] Chapter 17

Week 6 (October 6/10)

Capital acquisition

- i. The Capital acquisition process
- ii. The impact of Capital acquisition on the price of the firm's securities

Readings: [BD] Chapter 23

Week 7 (October 13/17)

Case 3 due October 13 at 7PM

Course review

Week 8 (October 24)

Final Examination

Important dates:

September 8/12	Problem set I due
September 15	Case 1 due
September 22/26	Problem set II due
September 29	Case 2 due
October 13	Case 3 due
October 24	Final Examination

Recommended end of chapter problems	
Chapter	Problems
9	22,23
24	2,3,10
14	3,5, 8,9,10,16
15	1,3,6, 9, 13, 15,16
16	4,5, 6, 8,12, 14
18	2,3,4,6,7,13
23	3, 4, 8, 13
17	3,4, 6, 9, 11,16,17
22	6, 7, 10, 14