

FINA 321: Advanced Financial Management

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Required Text: *Corporate Finance*, by Ross, Westerfield and Jaffe, McGraw Hill, 7th Edition.

Course Objectives: The purpose of this course is to give the students an advanced and hands-on exposure to key issues in corporate finance that are either not covered or only briefly touched upon in Finance 111. Topics that are emphasized are: capital budgeting decisions, real options techniques to value projects, finding the cost of capital, raising capital, how capital structure decisions affect firm value, valuation of companies using DCF and other techniques, and M&A (merger and acquisition) decisions. Students taking this course should be well prepared to pursue careers in investment banking, financial analysis, and consulting.

Pre-requisites: Finance 111, Finance 221.

Course Web Site: Please check the web site under WebCT regularly for course materials and announcements. Also, please make a note of the office hours. You should make it a point to see me at least once during the term. Asking questions face-to-face is much more effective than posting questions on the website.

Course Organization and Sources of Material:

The course will be organized as follows:

The **first part** of the course will cover material from chapters 6-7, 9-10, 14-17 of the text. Some of this material you have seen before and will be reviewed briefly (especially from Chapters 6 and 7). The **second part** (after week 8) will cover more advanced topics, such as basics of derivatives pricing, options, real options techniques to value projects, issuing securities to the public under various assumptions about information, and mergers and acquisitions (M&As).

There are three sources of material for the topics covered in this course.

- (a) For the **first part**, I would encourage you to read through quickly a set of notes that I have prepared on the material contained in the relevant chapters of the text book. These notes are contained in the file "lecturenotes.pdf" available at the course website. Not everything will be clear at first reading; however, if you are able to read through the notes quickly, you should have a good idea about the

content of the course, and you will also know where you need to pay extra attention when a particular topic comes up for discussion in class.

- (b) The lectures themselves will be organized around a set of PowerPoint presentations that will be available at the course website. These will supplement the material in the lecture notes and the text book, especially for the **second part** of the course.

- (c) Finally, the textbook constitutes a third source of material. For the second part of the course, I will also provide

For several topics, we will illustrate concepts using some selected cases from the Harvard case book, *Case Problems in Finance*, 11th Edition and *Case Studies in Finance: Managing for Corporate Value Creation* by Robert F. Bruner. Sometimes, the in-class group exercises (see below) will be based on cases assigned ahead of time. Copies of the cases to be discussed will be held in reserve in the library, and it is not necessary for you to buy these books.

Course Structure and Pedagogy

Groups:

You are required to form groups in the first week of class. Each group will consist of either 5 or 6 members, depending on eventual class size. The names of group members must be handed in by February 15.

Group members will be required to sit together at all times and work together on in-class group exercises. They will also work together on the group project (see below).

There will be FIVE in-class exercises that will be graded. Your group will be asked to solve these exercises in class, and for each group exercise, I will randomly pick a group to present its solution before the class. Sometimes, more than one group may be called for a particular exercise.

Be sure that on each such date, at least one member of your group is able to bring a laptop computer to the class. This will be very helpful in working out the cases, as well as the in-class exercises.

Students who are not a part of a group of size 6 on February 15 will be combined in an arbitrary manner into groups. If the number of students enrolled in your section is not divisible by 6, one group of size smaller than 6 will be necessary.

Seating Plan:

There will be a seating plan for the course. Each group must seat in one row, and every member of the group will have a designated seat. This is important because otherwise, we cannot keep track of your class performance.

Grading:

The course grade will be determined on the basis of

	<u>Weight</u>
(i) five in-class group exercises	50%
(ii) final examination	50%

For the in-class group exercises, all group members will receive the same Basic Grade to begin with. The Basic Grade will then be adjusted according to a peer evaluation scheme.

Suppose your group consists of 6 members. Each member of your group will be asked to rank every other member on a scale of 1 to 5, indicating their evaluation of each member's relative contribution to the group's efforts (excluding himself/herself). A rank of 5 is the best possible, and 1 is the lowest possible. The average rank of each group member will then be computed. Suppose this average rank for an individual is x (a number between 1 and 5). Then the eventual Group Project Grade for that individual will be determined by the following formula:

$$\text{Group Project Grade} = (\text{Basic Grade}) + (0.10) (\text{Basic Grade}) \times (x - 3)/2$$

Thus, if your average rank is 5 and the Basic Grade is 120 (out of 150) for your group, your Group Project Grade is $(120) + (0.10)(120)(2/2) = 132$.

The peer evaluation will be confidential, and will be done at the time of the final examination. Note that you will **not** be allowed to give the same rank to any two people in your group. If you do, or if you do not rank someone in your group, those individuals will be assigned a rank of 2.5 from you. Also, as a penalty to you, your average rank will be lowered to 1.

If the number of group members is less than six, then the formula will be adjusted accordingly. Thus, if the number of group members is 5, the best possible rank is 4. In this case, the formula will be

$$\text{Group Project Grade} = (\text{Basic Grade}) + (0.10) (\text{Basic Grade}) \times (x - 2.5)/1.5$$

(the number subtracted is the mid point of the highest possible and lowest possible ranks).

Policy on Attendance

Attendance is mandatory on the days scheduled for the in-class group exercises. If you fail to show up for any of these group exercises, your score will be zero for that particular exercise, irrespective of the score obtained by your group. Only absences due to health reasons – and supported by a certificate from the medical clinic – will be considered as legitimate reasons for absence. Only *one* absence due to health reasons will be allowed, and in such a case, you will be assigned the average score on the remaining in-class exercises.

Please note in particular that job-interviews will not be considered valid reasons for absence for the in-class exercises. Since these dates are announced well in advance, you should be able to avoid any conflicts.

Course Outline and Time Table:

<u>Week of</u>	<u>Topic</u>	<u>Reference</u>	<u>Comments</u>
Feb 2	Review of capital budgeting	Chapters 6	Read Lockheed Case Download spreadsheet
Feb 7	Lockheed Tri Star Case ¹ Financing Projects with equity - a first look	Notes	
Feb 14	Project Cash Flows. Risk, Return, and the Discount Rates – a review, wacc Real versus nominal NPV	Chapter 7 Notes Chapters 9-10, 12	Read Super Project case Download spreadsheet
Feb 21	Group Class Exercise 1 on February 21². Review of Long-Term Financing	Chapter 14	
Feb 28	Introduction to Capital Structure – The M&M Theorem The implications of the M&M Theorem	Chapter 15 (15.1-15.4) Notes Notes	
March 7	Taxes , Bankruptcy Costs, and the WACC and APV method of valuation	Chapter 15 (15.5) Notes	
March 14	continued, RJR Nabisco Case Group Class Exercises 2 on March 16	Notes	

¹ Class discussion. Please read the case before coming to class. Also, it would be helpful if you can bring your notebook computer to class when cases are discussed, or during group exercise in class.

² Please make sure that at least one group member brings a notebook computer to class. Attendance on these days is mandatory. If you fail to attend, your score for this exercise will be marked to be zero irrespective of the group score.

March 21	NPV and APV Issuing Securities	Chapter 17 Chapters 19, 20
March 28	continued The costs of debt	Chapters 16 (16.1-16.3), Notes
April 4	Financing Projects with equity - the costs of equity, Rights	Chapter 16 (16.6, 16.7, 16.8) Notes
April 11	Group Class Exercise 3 on April 11 (only April 11 available)	
April 18	Principles of Derivatives Pricing (only April 20 available)	Notes
April 25	Options Real Options Techniques to Value Projects	Chapter 8, Notes
May 2	continued Group Class Exercise 4 on May 4	
May 9	Mergers and Acquisitions Valuation by Multiples	Chapter 29, Notes
May 16	Group Class Exercise 5 on May 16	