

# FINA 321: Advanced Financial Management

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**Note:** I encourage you to visit my office hours. Asking questions face to face is much more effective than sending me emails or posting questions on the web. If you cannot make it during my office hours, please email me to make an appointment.

## **Schedule:**

Session 3: Tuesday and Thursday, 15:00-16:20pm, Room 4116 (lift 19)  
Session 4: Tuesday and Thursday, 16:30-17:50pm, Room 4116 (lift 19)

**Course Website:** [webct.ust.hk](http://webct.ust.hk)

## **Course Objectives:**

This course studies how financial managers make investment and financing decisions. We introduce the discounted cash flow (DCF) approach, and adapt it to account for uncertainty and taxation. We then use this approach to analyze some typical investment and financing problems derived from real business settings such as purchasing a plant, capital structure and payout policies, initial public offerings (IPO), and merger and acquisition (M&A). Students taking this course should be well-prepared to pursue a career in investment banking, financial analysis, and consulting.

**Prerequisites:** FINA 111 and 221

## **Materials:**

Teaching will be based on textbook and lecture notes. Hardcopies of the textbook, cases, and the article have been reserved at the library. Lecture notes (.ppt or .pdf) are available at the course website.

- Textbook: Corporate Finance, by Ross, Westerfield and Jaffe (RWJ), 7th Edition, McGraw-Hill
- Cases:
  - Marriott Corporation: The Cost of Capital (HBS 9-298-101)
  - Hutchison Whampoa Ltd.: The Capital Structure Decision (HBS 99N021)
  - United Parcel Service's IPO (HBS 9-103-015)
  - John M. Case Co. (HBS 9-291-008)

### **Case Groups:**

You are required to form groups in the first week of classes. Each group will consist of 6 members. The names of group members must be handed in by Feb 14. Students who are not in any group of size 6 will be combined in groups in an arbitrary manner. One group of size smaller than 6 may be necessary if the number of students enrolled in your session is not divisible by 6. Group members are required to sit together in class and work together on case reports.

### **Case Reports:**

For each case, I will provide you a set of questions to guide your analysis. You are required to work in groups to answer all the questions in your report.

There are some points to remember when you prepare a report:

1. You need to turn in a hardcopy of the report. Softcopies (disk or email-attachments) will not be graded.
2. There must be a section called “Key Assumptions” where you list the important assumptions you have made throughout the report.
3. You need to have a detailed analysis of cases. Charts or tables do not constitute an answer – they are considered as supporting material for your analysis.
4. All tables and charts should appear at the end of the report. The analysis in the report should make very clear references to the charts and tables.
5. There must be “Explanatory Notes” following each table or chart where the calculations in the table or chart are explained in details.
6. Excluding the tables and charts and their explanatory notes, the report should not exceed 10 pages.

The layout of a report should be: “Key Assumptions”; “Analysis”; “Tables and Charts” and their explanatory notes.

### **Grading:**

Your course grade is based on your performance on:

- |                              |     |
|------------------------------|-----|
| 1. Class participation       | 10% |
| 2. Four (group) Case Reports | 30% |
| 3. Mid-term Exam             | 30% |
| 4. Final Exam                | 30% |

We will have an interactive class. Thus, I encourage students to ask questions and your class participation accounts for 10% of your grades.

In the case reports, all group members will receive the same basic grade to begin with. The basic grade will then be adjusted according to peer evaluation. The peer evaluation will be confidential and will be done at the time of the final exam.

In the peer evaluation, each member of your group will be asked to rank every other member on a scale of 1 to 5 indicating his/her 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. If the average rank for an individual is  $x$  (a number between 1 and 5), that individual's eventual grade in case reports is:

$$\text{Grade in Case Reports} = \text{Basic Grade} \times [90\% + 10\% \times (x - 3)/2]$$

If the group size is less than 6, the formula will be adjusted accordingly. For example, suppose that a group has 5 members. The best possible rank is 4. The formula becomes:

$$\text{Grade in Case Reports} = \text{Basic Grade} \times [90\% + 10\% \times (x - 2.5)/1.5]$$

Note you are not allowed to give the same rank to any two people in your group. If you do or you do not rank someone in your group, those individuals will be assigned a rank of 3 (for group of size 6) or 2.5 (for group of size 5) from you. As a penalty, your average rank will be lowered to 1.

Here is an example of how the grade for the entire course will be computed. Suppose your group has six members and gets the following grades in case reports:

- Case 1: 80
- Case 2: 85
- Case 3: 90
- Case 4: 85

Basic Grade =  $(80 + 85 + 90 + 85)/4 = 85$ . Your Average Rank in the Peer Evaluation: 4.  
Your Grade in Case Reports =  $85 \times [90\% + 10\% \times (4-3)/2] = 81$

Your Grade in Mid-term Exam: 90. Your Grade in Final Exam: 80. Your class participation grade is 90.

Your total final grade is  $81 \times 30\% + 90 \times 30\% + 80 \times 30\% + 9 \times 10\% = 84$ .

### **Sitting Plan:**

Each group must sit in one row, and every member of the group will have a designated seat. To make sure that we can match names to faces (especially in the early part of the course), you need to give me a small photograph of yourself, with your name and student I.D. written on the back, by Feb 14.

# Course Outline and Schedule

## Part I. Introduction

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|-----------|-------------------------------------|-----------|
| 1. Jan 30 | Course Introduction                 | Chapter 1 |
| 2. Feb 01 | Accounting Statements and Cash flow | Chapter 2 |

## Part II. Value and Capital Budgeting

- |               |  |           |
|---------------|--|-----------|
| 3. Feb 06     | Net present value and NPV rule                     | Chapter 4 |
| <b>Feb 08</b> | <b>Rescheduled</b>                                 |           |
| 4. Feb 13     | How to value bonds and stocks                      | Chapter 5 |
| 5. Feb 15     | Some alternative investment rules                  | Chapter 6 |
| 6. Feb 22     | Net present value and capital budgeting            | Chapter 7 |
| 7. Feb 27     | Risk analysis, real options, and capital budgeting | Chapter 8 |

## Part III. Risk

- |                   |   |                |
|-------------------|---|----------------|
| 8. Mar 01         | Capital market theory: An overview          | Chapter 9      |
| 9. Mar 06         | Return and risk: CAPM and APT               | Chapters 10-11 |
| 10. Mar 08        | Risk, cost of capital and capital budgeting | Chapter 12     |
| 11. Mar 13        | In class exercise                           |                |
| 12. Mar 15        | Case I                                      |                |
| <b>13. TBA</b>    | <b>Review (Makeup class)</b>                |                |
| <b>14. Mar 20</b> | <b>In Class Midterm Exam</b>                |                |

#### **Part IV. Capital Structure and Dividend Policy**

15. Mar 22	Capital-financing decisions and efficient capital markets	Chapter 13
16. Mar 27	Long-term financing: An introduction	Chapter 14
17. Mar 29	Capital structure: basic concepts	Chapter 15
<b>Apr 03</b>	<b>Rescheduled</b>	
18. Apr 12	Capital structure: limits to the use of debt	Chapter 16
19. Apr 17	Valuation and capital budgeting for the levered firm	Chapter 17
20. Apr 19	Dividends and other payouts	Chapter 18
21. Apr 24	Case 2	

#### **Part V. Special Topics**

22. Apr 26	IPO	Chapter 19
23. May 03	Case 3	
24. May 08	M&A	Chapter 29
25. May 10	In class exercise	
26. May 15	Case 4	

#### **Conclusion**

<b>27. TBA</b>	<b>Review (Makeup class)</b>
<b>TBA</b>	<b>Final Exam</b>