

FINA 321 Spring 2008

Advanced Financial Management

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TA: Victor Yip

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Class Web (LMES): <http://lmes2.ust.hk>

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Office hours: Wed 10:00 – 12:00

Classes:

Section L3: Tue & Thu 1:30–2:50PM, Lecture Theater “H”

Section L4: Tue & Thu 3:00–4:20PM, Lecture Theater “H”

Course Objectives: The course covers selected advanced topics in corporate finance. My goal is to present a very simple material, while advanced students can benefit from the scaled-up textbook and the suggested readings.

Agenda: 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).

Prerequisites: FINA 111 and 221, although this may be flexible. In general, you would feel much more comfortable taking this class, if you have taken a class in Investments and Introductory Accounting. I will also assume that you are familiar with Excel spreadsheets.

1. **Required Text:** (BD) Berk and DeMarzo, Corporate Finance, Pearson International Edition First Edition, 2007.
2. **Recommended Additional Reading:** (RWJ) Ross/Westerfield/Jaffe, *Corporate Finance*, McGraw-Hill, Seventh edition.

Grading Policy: Your grade will be calculated as follows:

Problem Sets (3 total, 7% each): 21%

Case Analysis (2 total, 10% each): 20%

Midterm: 20%

Final Exam: 39%

Class Participation: will count on the margin

Problem Sets: There will be a total of three problem sets assigned. 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

Case Write-Ups: There will be two cases assigned. You can work on cases in groups of up to six people. Please talk to your classmates and form the groups during the first class. If you are unable to join any group by the end of the first week, send an e-mail to Victor at victory@ust.hk. You should be ready to present your case solution in class in a 15-minute presentation. Please make sure that your group sits together in the class.

Case write-ups have to be turned in at the beginning of each class at the due dates. Late submissions will not be graded. Please use the following as guidance:

1. Please turn in a hardcopy of the report (3 pages maximum, not counting exhibits). Softcopies (disk or email-attachments) will not be graded.
2. You should have a section called “Key Assumptions” where you list the important assumptions you have made throughout the answer. The next section called “Analysis” should provide the details on your estimations, methodology, etc. Finally, the last section “Results” should provide a point-by point answers to the questions supplied with the case. The question the answer is referring to should be clearly marked.
3. Please provide a detailed analysis of cases. Charts or tables do not constitute an answer – they are considered as supporting material for your analysis.
4. For the in-class presentation, prepare the electronic copy of your write-up (in PDF, DOC or PPT formats) and a spreadsheet with your calculations, if applicable. You do not need to prepare a formal presentation

Midterm and Final Exam: The midterm is tentatively scheduled on March 11th during the class; it is a closed book exam. The final exam is a 3-hour closed book exam (date TBA) but you can create and use a single-page handwritten cheat-sheet. 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.

Administrative Information

Office hours: I will hold office hours as indicated above and by appointment. I will also be generally available after class to answer your questions. Outside of these hours e-mail is the best option.

Auditing: Students may not audit this class. If you want to take this class you have to be registered for a letter grade.

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.

Class Webpage: We will post important class information and materials on the webpage including lecture notes, problem sets, solutions, handouts, etc.

Attendance: 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.

Namecard: Students are required to turn in a namecard, which will be distributed in class.

Course Outline (subject to changes)

1. Introduction to Corporate Finance: Overview of Financial Decisions

Introduction to Corporate Finance: What is Corporate Finance? Investing, raising capital and managing cash.

Read: **BD Chapter 1, introduction.**

2. Investment Rules Under Certainty

The NPV Rule and Valuation of Riskless Cash Flows: One-period, compounding, annuities, valuation of bonds.

Read: **BD Chapter 3.3 and Chapter 4.**

Alternative investment rules: IRR, Payback period and Average accounting return methods.

Read: **BD Chapter 4.8.**

3. Forecasting Expected Cash Flows and Firm Valuation

Estimating Cash Flows from Financial Statements: Free Cash Flows, growth rates.

Read **BD Chapter 2.**

4. DCF and valuation by comparison

Application of the Discount Cash Flows method to valuing stocks.

Read **BD Chapter 9.**

Valuation by comparison and replication.

5. Estimating Cost of Capital: Risk

Introduction to risk.

Read **BD Chapter 3.6.**

Risk and simple measures of risk, portfolios, diversification. Certainty Equivalence Method.

Read **BD Chapter 10 and 11.**

Risk-neutral valuation.

6. CAPM

Introduction to Capital Asset Pricing Model.

Read **BD Chapter 12.**

7. APT

Introduction to Arbitrage Pricing Theory.

Read **BD Chapter 13.**

8. Alternative Projects, Real Options

Capital Budgeting issues: Sunk costs, opportunity costs, inflation, optimal replacement problem.

Read **BD Chapter 7.1.**

The option to wait, invest, abandon.

Valuing Real Options.

Read **BD Chapter 22.**

9. Capital Structure

Long Term Financing with Debt and Equity

Read **BD Chapter 23 and 24.**

Capital Structure.

Read **BD Chapter 14.1-14.3.**

10. Hybrid Securities, Options

Financing a firm with hybrid securities: Convertibles and Warrants. Callable bonds

Read **BD Chapter 24.4.**

11. Hedging.

Hedging and Value of the firm.

Read **BD Chapter 30.**

12. Issuing Securities, Distribution Policies

Issuing Securities. Information Conveyed by Financial Decisions. Initial Public Offerings, Rights Issue, Repurchases:

Read **BD Chapter 23.2.**

13. Debt and Leasing, Cash Policies

Issuing Long-Term Debt. Leasing vs. Debt.

Read **BD Chapter 24.**

Cash Management

Read **BD Chapters 26 and 27.**

14. Mergers and Acquisitions

Mergers and Acquisitions.

Read **BD Chapter 28.**