

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

FINA 111: Financial Management

Spring 2009

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Office hours:	Thur 2:00pm – 4:00pm and by appointment		
Lectures:	L1: Wed & Fri, 1:30pm – 2:50pm, LTJ L2: Wed & Fri, 4:30pm – 5:50pm, LTJ L3: Wed & Fri, 3:00pm – 4:20pm, LTJ		

Course Description

This is an introductory course which aims to provide students with a comprehensive coverage of the core concepts and analytical techniques in corporate finance. The valuation principle is the unifying framework in this course. After reviewing the basic corporate accounting principles, students will first learn the important tools including time value of money, and several investment decision rules. Then they will apply these techniques and the valuation principle to corporate investment decisions and project analysis. Another main application is securities valuation for bonds and stocks. Finally, the critical concept of risk and return trade-off will be introduced and quantified. The model will then be applied in corporations' long term financing decisions which includes estimating the cost of capital, determining the capital structure, and payout policy of the firm.

Course Objectives

Upon successful completion of this course, you should be able to:

1. Analyze a firm using the balance sheet and income statement, interpret a statement of cash flows and know what a statement of stockholders equity is;
2. Discuss the role of competitive markets in determining the value of a good and understand the Law of One Price;
3. Compute the present value and future value of any set of cash flows using financial calculator and in Excel;
4. Compute loan payments and balances using quoted interest rates using financial calculator and in Excel;
5. Show how inflation, expectations and risk jointly determines interest rates;

6. Use the NPV rule to make investment decisions, and state alternative rules and their pros and cons;
7. Discuss why working capital management is important for a firm;
8. Compute the price and yield to maturity of zero-coupon bonds and coupon bonds using financial calculator and in Excel;
9. Compute the value of a stock using different approaches;
10. Explain the tradeoff between risk and return in capital markets;
11. Explain how diversification can eliminate unsystematic risk;
12. Explain the relation between systematic risk and the market portfolio, and use CAPM to compute the equity risk premium for a stock;
13. Explain the implications of the capital structure on a firm in a perfect capital market and in a market with taxes and transaction costs;
14. Identify different kinds of payout policies and discuss their implications.

Study Materials

1. Required Textbook: *Fundamentals of Corporate Finance* by Berk, DeMarzo and Harford, Pearson International Edition, 2009. This book is **required** of all students since it will be used extensively throughout the course. You should also read the assigned chapters in the textbook thoroughly because the lectures will only focus on the core and more difficult concepts instead of every detail in the textbook.
Note: This textbook contains information about U.S. financial markets, institutions and corporate finance practices. These will not be covered in examinations.
2. My Finance Lab (MFL) Access Code: Each student is **required** to have an individual Access Code to register for MyFinanceLab, a web-based homework and tutorial system accompanied the textbook. Access Code Cards can be purchased bundled with the textbook at a special discount price at the campus store.
IMPORTANT: You must have your MFL account properly set up before 5pm on Feb 6 (Fri). The guidelines will be provided in the first tutorial class.

My Finance Lab (MFL) contains a number of tutorial tools and learning aids that give you hands-on guidance with a hint and partial credit system when working on the end-of-the-chapter problems. There are two important features in MFL: **STUDY PLAN** and **HOMEWORK**, which you should utilize extensively for this course. Exercises in **STUDY PLAN** are **non-graded**. MFL provides step-by-step instruction, input-specific feedback, and hints, and may link to spreadsheets, sample problems, or the exact spot in the eText that addresses the learning objective of the problem.

Therefore, we will **NOT** post the solutions to end-of-chapter problems because you will get detailed solutions in **STUDY PLAN** during your **OWN** practices.

Moreover, you are strongly advised to take advantage of the **STUDY PLAN** by practicing exercises for each chapter before attempting the **graded** assignments in **HOMEWORK**. The practices not only will improve your understanding of the lecture materials, but will also improve your results in the graded assignments.

Further instructions on registering your personal MFL account and logging into the system to do the practices and assignments are available in the Supplement (under Course Content) on the course website.

3. Financial calculator: recommended models – HP 10B or TI BA II Plus
Financial calculators have built-in functions that save time in solving time value of money problems, and their use is permitted in examinations. We will use calculators in lectures. It is strongly recommended that you buy a financial calculator and become proficient in using its time value of money and statistical functions. You should refer to the user manual for instructions. 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, Calculator Guide for different models will also be available on the course web site.
4. Course website: <http://lmes2.ust.hk>
You should visit the website regularly because a lot of important information will be available on the course website including Announcements, Syllabus, Lecture Notes (under Course Content), and Gradebook. Lecture notes are posted at least two days prior to classes.
5. Other relevant websites:
www.finance.yahoo.com.hk (current market information and historical price data)
www.hkex.com.hk (Hong Kong Exchanges and Clearing Ltd.)
www.sfc.hk (Hong Kong Securities and Futures Commission)

Tutorials

- To supplement the large lecture class, weekly tutorials will be conducted by the instructors and TAs throughout the semester. There will be approximately thirty students in each tutorial session, providing an opportunity for you to practice critical thinking exercises and doing assessed cases in a small group setting. It also enables more interaction between you and the tutorial instructor.
- Students should form 5-person groups before the second week of class. You are free to choose your own groups from among students registered in the same tutorial session. If you wish to change to another tutorial, you must do so officially through ARRO.

Assessment and Grading

MFL Assignments (best 9 out of 10)	5%
Group Cases with Peer Evaluation (best 5 out of 6)	12%
Tutorial Attendance and Participation	3%
First Examination	40%
<u>Second Examination</u>	<u>40%</u>
Total	100%

My Finance Lab (MFL) Assignments

- There will be 10 MFL assignments, each one pertaining to specific chapters in the textbook. Each assignment consists of five end-of-chapter questions. You are allowed only ONE attempt to have your assignment graded before each specified deadline. However, you can submit each question separately for grading and in non-specific order.

- While the problems are identical in structure to the textbook problems, their numerical parameters will be different to allow for individual practices and assessment.
- 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 by yourself without assistance from any other people. The TAs and I will not answer questions regarding the assigned problems before the assignments are due.
- Note: we will NOT post the solutions to end-of-chapter problems because you will get detailed solutions in MFL.

Group Cases with Peer Evaluation

- There will be six assessed case exercises to be done by groups in the tutorials. Each case will be posted in advance on the course website. Questions pertaining to each case will be handed out in the tutorials, and each group will be required to prepare and submit ONE set of written answers for grading. Groups are encouraged to discuss cases prior to the tutorials.
- If a student does not attend a tutorial in which a case analysis is submitted for assessment, that student will receive a grade of zero for the exercise. There will be NO make-ups for missed case exercises.
- The lowest grade earned on the case exercises will be dropped. The grades on the remaining cases will count equally.
- For individual students, the final grade for group cases will be calculated from the basic grade received by the group and an adjustment from the peer evaluation. That is, all members of the same group will receive the same basic grade to begin with. Then the basic grade will be adjusted by a confidential peer evaluation score at the end of the semester.
- Peer Evaluation: Each member of the group will rank other members based on his/her evaluation of each member's relative contribution to the group. For a 5 member group, the rank is on a scale of 1 to 4 with 4 being the best and 1 being the worst. The evaluator must give each of the other students in the group a different rank. The average rank x of each group member will then be computed. The final grade for individual students for their group cases is calculated as:

$$\text{Final grade} = \text{Basic grade} \times [1 + (x-2)/20]$$

Examinations

- There will be two examinations in this course. The first one is held in mid-term and the second one is held at the end of the semester. Both exams are 2 hours long. The second examination will not be cumulative, but keep in mind that some materials presented in the first part of the course is relevant to the second part of the course.
- The format for examinations will be multiple choices. Questions are designed to test your understanding of core finance concepts and principles as well as your ability to solve numerical problems using the core principles and techniques.
- The examinations are closed book. Financial calculators are allowed but programmable calculators or calculators with text display functions are NOT allowed.
- There will be NO make up examinations. In the case if you miss the examinations due to extenuating circumstances beyond your control, special arrangements will be made. A student who misses the examination without a valid excuse will receive "zero" mark for that examination.

Attendance and Participation

- Tutorial attendance is **mandatory** because we will be doing many practices and assessed exercises in each session. Active participation from students is also expected as tutorial instructors will call on students randomly for answers.
- Because of the large class size of lectures, we will not take attendance in lectures. However, you are strongly recommended to regularly attend the lectures for two main reasons. First, lecture notes only contain brief outlines and do not include detailed explanation of the concepts nor step by step solutions to numerical examples. So simply reading the lecture notes may not enable you to fully understand the course materials. Skipping classes will definitely hurt your performance because the assignments and exam questions are heavily based on materials covered in class.
- Second, 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. Therefore, please do not ask me for the answers on these exercises because then I will know you have missed classes.

Class Conduct

This is a very 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 rows closest to the exit of the classroom.

Consideration

- Always turn off your cell phones before entering the classroom.
- Do NOT talk with other students or create disturbance in the lectures.
- NO eating or drinking 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 TAs. 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 TAs during the office hours. You may also discuss questions with your classmates using Discussion on LMES.