

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

FINA 321 L3/L4

Advanced Financial Management

Spring 2009

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Teaching Assistant: Mr. Victor Yip, Email: victory@ust.hk

Class Meetings:

L3: Tuesday and Thursday, 10:30 – 11:50, Room 4115A

L4: Tuesday and Thursday, 13:30 – 14:50, Room 4115A

Office Hours: By appointment

Course Content:

This is an applied finance course for senior undergraduate finance students. The aim of the course is to provide students with a good understanding of implementing valuation techniques under different corporate events. Topics to be covered include project evaluation, capital structure theory, dividend policy and repurchase, mergers and acquisitions, equity issuance (IPOs and SEOs) and real option valuation.

Course Materials

1. Required Textbook: *Modern Financial Management* by Ross, Westerfield, Jaffe and Jordan, McGraw Hill **International Edition**, 8th Edition, 2008.

You are encouraged to hold a copy of this book since the homework will be assigned from the end-of-chapter questions of this book. I will also put one copy of this textbook in the library 2-hour reserves.

2. Supplementary Textbooks and Materials:

a) *Financial Market and Corporate Strategy* by Mark Grinblatt and Sheridan Titman,

McGraw Hill, 2nd Edition, 2002

b) Valuation: Measuring and Managing the Value of Companies by McKinsey & Company, Tim Koller, Marc Goedhart, David Wessels, John Willey & Sons, 4th Edition, 2005

c) Financial Times (<http://www.ft.com>) and Wall Street Journal (<http://online.wsj.com>)

You are not required to buy (a) and (b). I will scan relevant pages and put them on the course website in case we will use some contents from these books in the class.

3. Course Website: access via LMES (<http://lmes.ust.hk>)

4. Financial Calculator: It is **NOT** necessary to have a financial calculator in this course. Using **excel** is encouraged in all valuation exercises.

5. Online Learning Center (OLC) at the Publisher's Website: www.mhhe.com/rwj & Self-Study Software The OLC provides access to additional web-based study materials for the textbook. The Self-Study Software contains self-grading questions for testing your knowledge of the materials in different chapters. You are advised to make reference to the OLC and the Software depending on your interest.

6. Other Reference Websites:

The textbook makes reference to some interesting financial websites which contain a lot of financial information on the US markets and companies. As finance is global in practice, it is useful to familiarize yourself with these sites as referred to in the textbook. For financial matters of local interest, you may consult the following sites: www.hkex.com.hk; www.sfc.hk; finance.yahoo.com.hk.

7. Assessment

a) Examinations: (60%) There will be a final examination ONLY. The examination schedule will be announced by ARRO in May, 2009.

b) Group Project: (20%) I will assign a group project in the first half of the semester. Each group only needs to submit one hardcopy of report. In the second half of the semester, the group project will be presented by some or all group members in front of your classmates. Each presentation will last for 15 minutes and the Q&A section

for another 5 minutes. The grade of group project will be given by other groups after the presentation (the mean value after taking out the highest and the lowest grades).

Forming Groups: You can form a group of 5 students by yourself and let me know via email before Feb 15, 2009. Each group should nominate **one group leader** while submitting the list of group members. I will assign students whose names are not submitted into groups after this deadline.

To be posted
Group Project: By 6pm, March 1st

Hardcopy submission
By 6pm, April 7th

Peer Evaluations: To differentiate different levels of efforts of group members, we will carry out the peer evaluation of case studies after the final exam. The detailed method of peer evaluation is attached following this syllabus.

c). Individual Mini-case Study (20%): A mini-case study will be assigned in the second-half of the semester. This mini-case study will involve the empirical description and the valuation analysis of a recent corporate event. A sample will be provided. Students can choose to work on various corporate events, including debt issuance, equity issuance (IPOs or SEOs) or M&As. The deadline of submitting the case study report is the **final exam of this course. Do start as early as possible.**

7. Homework Assignments

After each lecture, selected end-of-chapter Questions and Problems from the textbook will be assigned as homework to the class. The assignments are primarily for practice and for testing your understanding of the material, especially the more difficult concepts. You are **NOT** required to submit your homework. Solution to the problems will be provided on the course website. I will also discuss some difficult problems in the class.

Academic Integrity:

You must observe the HKUST Academic Honor Code and rely entirely on your own intellectual endowments during the examinations. Cheating will not be tolerated and will result in serious consequences including failing grade and additional sanctions.

FINA 321 – Spring 2009: SCHEDULE OF CLASSES
(Tentative – to be adjusted)

No	Class	Topics
1	Tue, Feb 3, 2009	I: Overview II: Review: Time Value of Money and NPV
2	Thu, Feb 5, 2009	Review: Capital Budgeting Problem
3	Tue, Feb 10, 2009	Capital Budgeting Case: Lockheed Tri Star (By Prof. Sudipto Dasgupta)
4	Thu, Feb 12, 2009	Library – Data Retrieving (including Reuters) in Financial Analysis
5	Tue, Feb 17, 2009	Risk and Return Revisited: CAPM
6	Thu, Feb 19, 2009	Risk and Return Revisited: APT
7	Tue, Feb 24, 2009	Bond and Equity Valuation (a)
8	Thu, Feb 26, 2009	Bond and Equity Valuation (b)
9	Tue, Mar 3, 2009	Cost of Capital (a)
10	Thu, Mar 5, 2009	Cost of Capital (b)
11	Tue, Mar 10, 2009	Capital Structure (a)
12	Thu, Mar 12, 2009	Capital Structure (b)
13	Tue, Mar 17, 2009	Capital Structure: Case
14	Thu, Mar 19, 2009	Dividend Policy and Repurchase
15	Tue, Mar 24, 2009	Mergers and Acquisition (a)
16	Thu, Mar 26, 2009	Mergers and Acquisition (b)
17	Tue, Mar 31, 2009	Mergers and Acquisitions: Case
18	Thu, Apr 2, 2009	IPOs
19	Tue, Apr 7, 2009	SEOs (a)
20	Thu, Apr 16, 2009	SEOs (b)
21	Tue, Apr 21, 2009	Equity Issuance: Case
22	Thu, Apr 23, 2009	Real Option Valuation (a)
23	Tue, Apr 28, 2009	Real Option Valuation (b)
24	Thu, Apr 30, 2009	Real Option Valuation (c)
25	Tue, May 5, 2009	Special Topics or Guest Speaker
26	Thu, May 7, 2009	Presentation of Group Project (Group 1-4)
27	Tue, May 12, 2009	Presentation of Group Project (Group 5-8)
28	Thu, May 14, 2009	Revision for the Final Exam

Peer Evaluation in Case Studies: FINA 321

This announcement outlines the method for evaluating students' performance in group cases. While a common grade will be assigned to each group-case submitted, we feel that the final case grade for each student should be differentiated on account of his/her contribution to the case work. The differentiation will be done by peer evaluation and will be limited to 20% of case grade. The following is the evaluation method:

1. After the final exam, you will be asked to rate your group members (excluding yourself) according to your own perception of their contribution to the case work.
2. For a group of size N, you shall rate and match each of the other (N-1) members of your group by an individual score of 1, 2, ..., to (N-1), with a higher score indicating greater contribution to the case. For example, if there are five members in your group (i.e. four excluding yourself), you will give 1 to the member that contributes the least and 4 to the member that contributes the most to the case. Please note that each member rated must have a different score covering the full range 1 to (N-1): you cannot give the same score to two or more group members. If you violate the rating instruction, your own peer evaluation score will be set to 1.
3. We will collect the peer evaluation forms and calculate the mean peer evaluation scores from your group members. Suppose your mean evaluation score is X. Your final case grade will be determined according to the following formula:

$$\text{Final Case Grade} = \text{Case Grade} \times \{1 + 0.2 \times (X - \text{Avg}) / [(\text{Max} - \text{Avg})]\}$$

where Max = Maximum possible rating = N-1 and Avg = the Average of rating score range = N/2 (e.g., for 5-member group, the range is from 1 to 4. Therefore, Max =4 and Avg = 2.5. Similarly, for a 4-member group, Max = 3 and Avg = 2).

An example: Suppose your group has 5 members. Your case grade, which is the same for all group members, is 8.5 out of 10 points and your average peer evaluation score from your 4 group members is 3.0, then your final case grade is $8.5 \times [1 + 0.2 \times (3.0 - 2.5) / (4 - 2.5)] = 9.07$.

4. You can see from the formula that, if everyone in the group gives you the highest grade, your final case grade will be 20% higher than the grade for the group. On the other hand, if all your group members give you the lowest grade, your final case grade will be 20% lower than the grade for the group. In the above example with an initial common grade of 8.5, the maximum range of final case grade is from 6.8 to 10.2.