

# FINA 321 Spring 2009

## Advanced Financial Management

---

Instructor: Prof. Yuri Tserlukevich  
Email: [yuri@ust.hk](mailto:yuri@ust.hk)  
Office: 2365  
Tel. 2358-8016  
Office hours: Tue 13:30 – 15:30,

TA: Victor Yip  
Email: [victory@ust.hk](mailto:victory@ust.hk)  
Tel.: 2358 7674  
Office hours: TBA

Class Web (LMES): <http://lmes2.ust.hk>  
Research, data, news: <http://ihome.ust.hk/~yuri/>  
[www.haas.berkeley.edu/~yura](http://www.haas.berkeley.edu/~yura)

### Classes:

Section L2: Mon & Wed 10:30–11:50PM, Room 4115A  
Section L1: Mon & Wed 12:00– 1:20PM, Room 4115A

**Course Objectives:** The course covers selected advanced topics in corporate finance

**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](mailto: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 will be during the class; it is a closed book exam. The final exam is a 3-hour closed book exam 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.

### **Approximate List of Topics**

---

#### **PART 1. REVIEW OF NPV AND CAPITAL BUDGETING**

##### 1. Introduction to Corporate Finance: Financial Statements

What is Corporate Finance?

Read: BD Chapter 1.

Financial Statements: BD Chapter 2.2-2.4.

##### 2. NPV and Investment Rules Under Certainty

The NPV Rule and Valuation of Riskless Cash Flows: Applications.

Read: BD Chapter 3.3, 3.4, also 3.6 (introduction to risk) BD Chapter 4.1, 4.2, 4.6.

##### 3. Forecasting Expected Cash Flows and Capital Budgeting

Example of valuation: Dividend discount model. Read BD Chapter 9.2.

Estimating Cash Flow: Basic Valuation of the Project or Firm. Read: BD Chapter 7 and 9.3.

CASE:

##### 4. Estimating Cost of Capital: Risk

Introduction to risk. Read BD Chapter 3.6.

Risk and simple measures of risk, portfolios, diversification.

Read BD Chapter 10.4, 10.5, 10.7, 10.8.

Beta Estimation. .Read BD Chapter 12.2, 12.4.

#### **PART 2. CAPITAL STRUCTURE**

##### 1 Financing with Debt and Equity in Perfect Markets

Read BD Chapter 14.

2 Capital Structure with Tax

**MIDTERM**

Read BD Chapter 15.

3 Capital Structure with Bankruptcy Costs, Agency Costs and Asymmetric Information.

Read BD Chapter 16.

4 Payout policy.

Read BD Chapter 17.

5 Valuation of the Company with Debt.

Read BD Chapter 18 and some of Chapter 19.

**PART 3. ADDITIONAL TOPICS**

1. Real Options

Introduction: opportunity costs and optimal replacement problem.

Read BD Chapter 7.1.

Real Options.

Read BD Chapter 22.

**CASE:**

3 Issuing Securities, IPOs

Read BD Chapter 23.

14. Mergers and Acquisitions

Read BD Chapter 28.

**FINAL EXAM: Date TBA**