

The Hong Kong University of Science & Technology
Department of Finance
FINA 512: Corporate Finance
Spring 2009

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| Office hours: | Tuesday 13:30 – 15:30 or by appointment | Office hours: |

Schedule:

Section 1: Saturdays 9:00–12:32, Room 4115A

Section 2: Saturdays 14:30–17:50, Room 6568

Course Objective

The objective of this course is to provide students the tools necessary to answer the key finance questions facing corporate managers:

1. What are good investments and,
2. How should the firm finance its investments?

Topics covered in the course: capital budgeting decisions, the variety of securities firms can issue to finance their investments, and the effect of risk and taxes on the investment and financing decisions of the firm.

Prerequisites

Students are expected to have background in financial accounting, microeconomics, and business statistics. Also helpful is a good familiarity with Excel spreadsheet.

Readings

Required Text

- Jonathan Berk and Peter Demarzo, *Corporate Finance*, Pearson Education. 2007.
- Case studies
- Articles from local and international press to be assigned during the course and placed on LEMS

Supplementary Readings

- Stephen A. Ross, Randolph W. Wethersfield, Jeffrey A. Jaffe, and Bradford Jordan, *Modern Financial management*, McGraw-Hill, 8th edition
- Asian Wall Street Journal

Grading

Your grade in this course will be based on your performance on:

- | | |
|---------------------------------------|-----|
| 1. Two (group) Case reports | 20% |
| 2. Three (group) homework assignments | 15% |
| 3. Class discussions | 10% |
| 4. Final examination (TBA) | 55% |

Case write-ups

The assigned cases and homework should be prepared in groups of no more than 5 members. The names of group members must be handed in by the due date of the first group assignment. Students who are not in any group of size 5 will be combined in groups in an arbitrary manner. One group of size smaller than 5 may be necessary if the number of students enrolled in your session is not divisible by 5.

Group members are required to sit together in class, work together on problem sets and case reports, and have with them a copy of the case and the report for class discussion.

Each case counts equally (10%) towards the final grade. Answer to the discussion questions should not exceed 3 pages, (tables and other exhibits, if required should be appended at the end), font 12, 1" margin on the left and right hand side of the page, and submitted on or before the due date. No late assignment are accepted, except under extraordinary conditions, and agreement from me is required before the stated due date.

Cases are graded with a 1, 2 or 3.

For each case, I will provide you a set of questions to guide your analysis.

Please pay attention to the following points when you prepare a case report.

1. Case write-ups are to be submitted electronically (through LMES or email to maolei@ust.hk) on or before the due dates indicated below.
2. Mark clearly the number of the question you are referring to.
3. When necessary, you should have a section called "Key Assumptions" where you list the important assumptions you have made throughout a specific answer (not for the entire case). You have to emphasize where these assumptions are necessary in your analysis.
4. Charts or tables do not constitute an answer – they are considered as supporting material for your analysis.
5. All tables and charts should have a descriptive title, should be numbered and appear at the end of the report. There must be "Explanatory Notes" following each table or chart where the calculations in the table or chart are explained in details.

6. The analysis in the report should make clear reference to the charts and tables. Including table or chart number, and the main result taken from the table or chart to support your answer.
7. The best advice for a good report is that each member of the team reads the report **before** submitting it. If you have time read it again, and if you have more time read it again and again and again.....

Problem Sets

There are 3 group problem sets, each counting equally (5%) towards the final grade. A copy of the group's solution should be submitted electronically (through LMES or email to maolei@ust.hk) on or before the due dates indicated below.

Late assignments will not be accepted. Group members are required to have with them a copy of the assignment for class discussion. Solutions will be available after due dates.

In addition, a list of recommended end-of-chapter problems is attached to this outline. The book's solutions will be made available to you and will be discussed during class sessions. These problems provide a good preparation for the final exam and you are strongly encouraged to attempt to solve them individually.

Class Participation

I grade class participation on a scale of 1 to 3 at the end of the course. An important pre-condition for getting points on class participation is that you come to class. You cannot participate if you are frequently absent or late getting into class.

Laptop Policy: It is course policy for students not to use laptops in class.

Final Exam

The final exam will take place in our last meeting. You are allowed to bring an A4 size cheat sheet (it is ok to write on both sides) of hand written notes and a calculator.

Financial calculators are not needed for the course, but a regular (scientific) calculator will be required.

You cannot take the final exam early and there will be NO MAKEUP exam for those who miss it. If you miss the exam, you will have to take it in the following year.

Academic integrity

It is expected that you will support and maintain a high standard of academic integrity. Cheating on exams and other academic misconduct will result in a failing grade and additional sanctions. A gross violation of Academic Regulations is to use solutions to cases from a similar course taught by me or by another instructor, be it someone's class notes or case solutions, whether verbal or written.

Schedule

The schedule below contains the reading assignments from the course text book [BD] and the due dates of the cases and problem sets.

Week 1 (February 7)

1. Introduction
 - 1.1. The objective of the firm
 - 1.2. The Net Present Value (NPV) rule
2. The time value of money
 - 2.1. Real and nominal interest rates
 - 2.2. Annuities and perpetuities
 - 2.3. The effective annual rate

Readings: [BD] Chapter 1, 3, 4, 5

Week 2 (February 14)

3. Capital budgeting under certainty

Problem set 1 due

Readings: [BD] Chapter 7

Week 3 (February 21)

4. Alternative investment decision rules

Problem set 2 due

Readings: [BD] Chapter 6

Week 4 (February 28)

5. Valuing bonds
6. Valuing stocks

Case 1 due

Readings: [BD] Chapter 8, 9

Week 5 (March 1)

7. An introduction to risk and return
8. Estimating the cost of debt and cost of equity

Readings: [BD] Chapter 10.1-10.3, 10.7 and 10.8

Week 6 (March 7)

9. The choice of financing and the cost of capital
 - 9.1. Financing decisions and market efficiency
 - 9.2. The cost of capital in a perfect market
 - 9.3. The effect of corporate taxes on the cost of capital

Problem set 3 due

Readings: [BD] Chapter 9.5, 14.1-14.3, 15.1 and 15.2

Week 7 (March 14)

Case 2 Due

10. Course review

Week 8 (March 28)

Final Examination

Important dates:

| | |
|-------------|-------------------|
| February 14 | Problem set 1 due |
| February 21 | Problem set 2 due |
| February 28 | Case 1 due |
| March 7 | Problem set 3 due |
| March 14 | Case 2 due |
| March 28 | Final Examination |

Recommended End of Chapter Problems

Practice problems (solutions will be posted on LMES).

| Chapter | Problems |
|---------|-----------------------------|
| 3 | 5, 6, 7, 9 |
| 4 | 6, 8,9,13,17,27,33,38 |
| 5 | 1,4,5,8,9,11,13,20,22,26,33 |
| 6 | 1, 8, 9,16,19 |
| 7 | 3, 6,7,14 |
| 8 | 5,6,10,11 |
| 9 | 1, 4, 7,9, 21,23 |
| 10 | 2,10, 12,16,19,20,22 |
| 14 | 3, 8,9, 12,13 |
| 15 | 1,3, 9, 11 |