

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

**FINA 111: Financial Management**

**Spring 2010**

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Office hours:	Fri 10:00 – 12:00 and by appointment		
Lectures:	L1: Wed & Fri, 1:30pm – 2:50pm, LTJ L2: Wed & Fri, 3:00pm – 4:20pm, LTJ L3: Wed & Fri, 4:30pm – 5:50pm, LTJ		

Course website on LMES: <http://lmes2.ust.hk>

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### **Prerequisites**

ACCT 101 and ISMT 111; Exclusion: FINA 110

### **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 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. Securities valuation of bonds and stocks is another main application. Subsequently, 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.

### **Learning 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 based on 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 explain the 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.

### Course 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 in 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: either purchased bundled with the textbook at a special discount price, or separately if you own a used copy of the textbook, at the campus bookstore.

Each student is **required** to have an individual Access Code to register for MyFinanceLab, a web-based homework and tutorial system accompanied the textbook.

**IMPORTANT**: You must have your MFL account properly set up before 5pm on Feb 10 (Wed). Instructions on registering your personal MFL account and a demo will be provided in the first tutorial class. Further instructions on logging into the system to do the practices and assignments are also available in the Supplement (under Course Content) on the course website.

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.

3. Financial calculator: recommended models – TI BA II Plus or HP 10B

The ability to use a financial calculator is essential for this course. 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 therefore strongly recommended that you buy a financial calculator and become proficient in using its time value of money and statistical functions before we start the chapter on time value of money. 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 in the second week of classes. In addition, Calculator Guides for selected models will also be available on the course web site.

NOTE: Calculators with text display functions are NOT allowed during examinations.

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.
- Answers to Review questions at the end of each chapter are posted.
- Solutions to Problems at the end of chapter will NOT be posted.
- NO past exams will be posted either.

5. Books on reserve in library

- *Essentials of Corporate Finance* by Ross, Westerfield and Jaffe, McGraw Hill, 2007  
This is the textbook used in previous years which uses a more traditional approach to corporate finance.
- *Corporate Finance* by Berk and DeMarzo, Pearson International Edition, 2007

The more advanced text *Corporate Finance* by same authors is available for those students who are interested in learning the topics in more details.

- *Finance: Applications and Theory* by Cornett, Adair, and Nofsinger, McGraw Hill, 2008

This textbook also uses a more traditional approach. Moreover, the textbook comes with an on line learning and assessment tool, CONNECT, which can be made available to those students who are eager to do more different exercises.

6. Relevant websites for reference:

You are encouraged to read more financial news and also get familiar with the local financial and regulatory environment. The following websites provide very good resources of information and they are in the “Useful Links” on the course website.

[www.finance.yahoo.com.hk](http://www.finance.yahoo.com.hk) (current market information and historical price data)

[www.hkex.com.hk](http://www.hkex.com.hk) (Hong Kong Exchanges and Clearing Ltd.)

[www.sfc.hk](http://www.sfc.hk) (Hong Kong Securities and Futures Commission)

## Tutorials

To supplement the large lecture classes, 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 class setting. It also facilitates more interaction between you and the tutorial instructor.

Moreover, in the tutorials, you will be working in groups of five students. This is to achieve part of the learning objectives of this course: developing effective team work and working with students from different background. We will randomly assign you to a 5-person group. You will stay with the same members throughout the semester and you are not allowed to change groups. As such, you are expected to cope with and manage the group dynamics.

You will have a chance to rate the contribution of your group members at the end of the semester by completing a confidential peer evaluation. Outstanding members will be able to earn higher scores for the assessed cases, while inactive members will receive lower scores for their non-performance.

We will announce the group member lists at the beginning of the third week of classes.

## Assessment and Grading

MFL Assignments (best 9 out of 10)	7%
Group Cases with Peer Evaluation (best 3 out of 4)	6%
Tutorial Attendance and Participation	7%
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 can submit the questions for grading individually and in non-specific order. However, you are allowed only ONE submission of grading for each question, and the whole assignment must be done before each specified deadline.
- While the problems are identical in structure to the textbook problems, their numerical parameters are 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 four short 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:

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

### Attendance and Participation

#### 1. Tutorials

- Tutorial attendance is **mandatory** because we will be doing many practices and assessed exercises in each session. Active participation from students is also expected. Tutorial instructors will call on students randomly for answers and they will also grade your participation. There will be NO make up for missed tutorials.

## 2. Lectures

- 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 concepts. 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 quizzes given in the lectures to make the class more interactive. They are not graded but the answers will only be provided in class. Therefore, please do not ask me for the answers of these exercises because then I will know you have missed classes.

### 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.

### **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 the professors or the TAs. We are generally available immediately after class and tutorials, 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 we may not reply. Generally it will be better if you ask the question in class, or visit the TAs during the office hours. You may also discuss questions with your classmates using "Discussion" on LMES. If we find some questions that are of common interest to the class, we will also post the questions and answers on "Discussion."

## **How to succeed in FINA 111**

- Read assigned textbook chapter prior to each class
- Attend classes and take notes
- Practice end-of-chapter problems using STUDY PLAN on MFL after class
- Actively participate in tutorials and prepare for assessed cases
- Spend at least 6 to 9 hours per week studying *outside* the classroom