

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

**FINA 321: Advanced Financial Management
Spring 2010 Sections: L1 & L2**

Instructor: Dr. Rik SEN

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Office hours: Thursdays 5:00 - 6:00 p.m. or by appointment

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

Office: Room 3392

Office hours: Wednesdays 10:00 a.m. to 12:00 noon

Class Timings:

L1: Tuesday and Thursday, 15:00 – 16:20, Room 4219

L2: Tuesday and Thursday, 13:30 – 14:50, Room 4219

Prerequisite: FINA 111 and FINA 221; basic knowledge of MS Excel

Course Intended Learning Outcomes:

Once you have completed the course, you should be able to:

1. Compare and rank projects in terms of attractiveness from a financial perspective.
2. Explain which factors are important for the choice of capital structure and critically evaluate capital structure decisions of firms.
3. Explain which factors should and do influence the payout policy of firms.
4. Evaluate and critique specific corporate events like mergers and acquisition from a financial perspective.
5. Explain which factors influence IPO and SEO (secondary equity offering) decisions of firms.
6. Perform equity valuation exercises and identify potentially overvalued and undervalued stocks using Microsoft EXCEL and the REUTERS financial database. You should also be able to defend your analysis and convince others.

Course Content:

This is an applied finance course for senior undergraduate finance students. A large part of the course deals with applying the discounted cash flow approach to tackle some of the common problems faced by corporate managers in business settings. Topics that will be covered include project evaluation, capital structure theory, equity valuation, dividend policy, mergers and acquisitions, equity issuance (IPOs and SEOs). A tentative schedule of material covered in classes is attached at that end of this syllabus.

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 course reserved section of the library.

2. Supplementary Textbooks and Materials:

- a) Financial Market and Corporate Strategy by Mark Grinblatt and Sheridan Titman, McGraw Hill, 2nd Edition, 2002
- b) Applied Corporate Finance: A User's Manual by Aswath Damodaran, John Wiley and Sons, Second Edition
- c) Valuation: Measuring and Managing the Value of Companies by McKinsey & Company, Tim Koller, Marc Goedhart, David Wessels, John Wiley & Sons, 4th Edition, 2005
- d) Corporate Finance by Jonathan Berk and Peter DeMarzo, Pearson International Edition
- e) Corporate Finance – An Introduction by Ivo Welch, Prentice Hall

You are not required to buy any of these books. Many of these books have been placed in the course reserve section of the library.

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

Lecture notes, handouts, various announcements, assignment solutions etc. will be posted here. Please check the class website regularly. Please contact the teaching assistant, Mr. Victor Yip, if you are having trouble accessing the course website.

4. Financial Calculator: It is **NOT** necessary to have a financial calculator in this course. Using **MS 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-graded questions for testing your knowledge of the materials in different chapters.

6. Other Reference Websites:

The textbook makes reference to some interesting financial websites which contain a lot of financial information, mostly on the US markets and companies. You might also look at the following websites if interested:

Financial Times (<http://www.ft.com>)

Wall Street Journal (<http://online.wsj.com>)

Yahoo Finance (finance.yahoo.com)

The following websites are good for current information about the Hong Kong markets: www.hkex.com.hk; www.sfc.hk; finance.yahoo.com.hk.

Assessment:

a) Mid-term Exam (25%):

Date and time: 23rd of March, from 7 p.m. to 9 p.m.

Venue: Lecture Theatre – J.

Specific details of what will be covered will be issued one week before the midterm. You may bring to the exams a calculator and one **A4-size data sheet**, on which you can write anything you like on **only one side**, but everything has to be **handwritten by you**. Photocopies are not allowed. Cheating will not be tolerated. Any student caught cheating in the exams will receive zero credit and may face further disciplinary actions.

There will be **no make-up exam!** If you miss the mid-term without legitimate cause, you will receive a grade of zero for the mid-term. To determine whether a cause is legitimate, I should be informed **before** the exam begins and I will require supporting documentation. If you miss an exam due to a legitimate cause, the weight of the mid-term exam will go to the final examination.

b) Group Project: (30%) I will assign a group project in the first half of the semester. Each group only needs to submit one hard copy of the report by April 29th. Please make

sure that the names of all the group members are clearly specified in the report. Towards the end of the semester, every group will present their project in front of the class. You are encouraged to use Powerpoint or some similar software for this. Each presentation will last for 15 minutes and the Q&A section for another 5 minutes. The other groups will assess the quality of the work of each group and assign a grade after the presentation. The grading of the project will be based on my assessment as well as the grade assigned by other groups after the presentation (the mean value after taking out the highest and the lowest grades). My assessment and the assessment of your classmates will get equal weight (50% each) in determining the average grade for the group. However, grades received by individual members of the group will be different. This will be determined based on **peer evaluation** given by other members in your group. The detailed method of peer evaluation is attached following this syllabus.

Forming Groups: You can form a group of at most 6 students (and preferably not less than 5 students) by yourself and let us know via email to Mr. Victor Yip (victory@ust.hk), the teaching assistant for this course by **Feb 19, 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.

	<u>Group formation</u>	<u>Project posted</u>	<u>Hard copy</u> <u>Report submission</u>
Group Project:	By 6pm Feb 19th	By 6pm, March 1st	In class, April 29th

c) Final Examination (45%): The examination schedule will be announced by ARRO in May, 2009. The final exam covers the entire course and will last 3 hours. You may bring to the exams a calculator and an A4-size data sheet, on which you can write anything you like on **both sides**, but everything has to be **handwritten by you**. Photocopies are not allowed. Cheating will not be tolerated. Any student caught cheating in the exams will receive zero credit and may face further disciplinary actions. You cannot take the final exam early and there will be no makeup exam for those who miss it.

d) Homework assignments (0%): During or after each lecture, selected end-of-chapter problems from the textbook will be assigned as homework to the class. These are for your own practice and will NOT be graded. Solutions to these assignments will be posted on the course website. You are encouraged to attempt these problems by yourself first and then talk to your friend or the class TA if you are having problems. Some of these problems will be discussed during tutorials. I might also discuss some of the more difficult problems in the class.

Classroom policies and guidelines:

Attendance policy: It is important that you attend every class. It will be more difficult to grasp concepts on your own by reading the book or otherwise. Things that I emphasize in class are more likely to be in the examinations.

Tutorials: A time for tutorials, which will be held by the teaching assistant, will be decided based on mutual convenience. Attendance is NOT mandatory. You are encouraged to attend, especially if you have questions on material covered in class or are having difficulty in doing the homework assignment by yourself.

Class participation: Asking questions in class is highly encouraged. If you do not understand something, it is very likely that there are many others who did not understand it. You are helping them as well as yourself by asking questions. For a few classes, you will be asked to read a case and come prepared. Your learning experience will be greatly enhanced if you participate in the discussion of the case in class. However, please do not have private conversations with other students in class.

Name cards: Please prepare your own name cards and bring them to every class. This will help me in getting to know you.

Coming on time: Please make sure that you are in your seat before the time at which the class is supposed to start. Entering the class after the class has started disturbs the professor as well as your fellow students.

Eating in class: Please do not bring any food or drink to the classroom.

Electronic devices: Mobile phones should be switched off. Laptops are not permitted to be used in the classroom as others can find the noise due to typing distracting. You are allowed to use audio taping devices to help you review the class later. Any kind of device that might disturb others should be turned off.

Academic Integrity:

Cheating of any sort will not be tolerated. Any student caught cheating during the exams will receive zero credit and may face further disciplinary action. Please refer to <http://www.ust.hk/vpao/integrity/> for HKUST rules regarding academic integrity.

Caveat: Changes to the syllabus may be necessary as we proceed with the course.

Peer Evaluation for group project: FINA 321

This section outlines the method for evaluating students' performance in the group project. While a common grade will be assigned to each group, I feel that the final project grade for each student should be different and based on his/her contribution. Based on evaluation of other group members, an individual will receive points that lies between +20% and -20% of the points obtained by the group. 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 work for the project.
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 project. 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 project. 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 project grade will be determined according to the following formula:

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

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, $\text{Max} = 4$ and $\text{Avg} = 2.5$. Similarly, for a 4-member group, $\text{Max} = 3$ and $\text{Avg} = 2$).

An example: Suppose your group has 5 members. Your project grade, which is the same for all group members, is 8.5 points and your average peer evaluation score from your 4 group members is 3.0, then your final project 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 project 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 project 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 project grade is from 6.8 to 10.2.

FINA 321 – Spring 2010: TENTATIVE SCHEDULE OF CLASSES

Class No	Date	Topics	Book Chapters
1	Tue, Feb 2, 2009	I: Overview II: Review: Time Value of Money and NPV	Ch 6
2	Thu, Feb 4, 2009	Review: Capital Budgeting Problem	Ch 7
3	Tue, Feb 9, 2009	Capital Budgeting Case	
4	Thu, Feb 11, 2009	Bond Valuation and Cost of Debt	Ch 5.1 – 5.3
5	Thu, Feb 18, 2009	Debt Markets	Ch 20
6	Tue, Feb 23, 2009	Review: CAPM & APT	Ch 10 & 11
7	Thu, Feb 25, 2009	Capital Structure: M&M proposition	Ch 15.1 – 15.3
8	Tue, Mar 2, 2009	Capital Structure: Effect of taxes	Ch 15.4
9	Thu, Mar 4, 2009	Capital Structure: Other issues	Ch 16
10	Tue, Mar 9, 2009	Capital Structure: Case	
11	Thu, Mar 11, 2009	Equity Valuation: DCF approach (a)	Ch 17
12	Tue, Mar 16, 2009	Equity Valuation: DCF approach (b)	Ch 17
13	Thu, Mar 18, 2009	Equity Valuation: Relative valuation approach + Review for mid-term	
	Tue, Mar 23, 2009	MID TERM EXAM: 7:00 to 9:00 pm. NO CLASS	
14	Thu, Mar 25, 2009	Payout policy	Ch 18
15	Tue, Mar 30, 2009	Library – Data Retrieving (including Reuters) in Financial Analysis [Date might be revised later]	
16	Tue, Apr 8, 2009	Mergers and Acquisition (a)	Ch 29
17	Thu, Apr 13, 2009	Mergers and Acquisition (b)	Ch 29
18	Thu, Apr 15, 2009	Mergers and Acquisitions: Case	
19	Tue, Apr 20, 2009	IPOs (a)	Ch 19
20	Thu, Apr 22, 2009	IPOs (b)	Ch 19
21	Tue, Apr 27, 2009	SEOs	Ch 19
22	Thu, Apr 29, 2009	Equity Issuance: Case GROUP PROJECT REPORT DUE	
23	Tue, May 4, 2009	Special topic	
24	Thu, May 6, 2009	Presentation of Group Project (Group 1-4)	
25	Tue, May 11, 2009	Presentation of Group Project (Group 5-8)	
26	Thu, May 13, 2009	Revision for the Final Exam	