

**Hong Kong University of Science & Technology**  
**Department of Finance**

**FINA110 - Fundamentals of Business Finance**  
**Summer 2003**

**Instructor:** Mr. TAM, Hon Keung (譚漢強)

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**Office hours:** 11:00 a.m. to 1:00 p.m. on Monday (or by appointment)

<b>Section</b>	<b>Time</b>	<b>Room</b>
L2	Mon, Wed & Fri: 14:00-15:50	2503

**Course outline:**

This course introduces basic principals and techniques in corporate finance and investment decision making. The major objective of this course is to provide students with a scientific framework for evaluating assets and investment opportunities. The course is basically divided into three parts. For the first part of the course, we understand a firm from a historical perspective, by looking at its accounting statement. For the second part, we will discuss in details the use of discount cash flow (net present value) technique for capital budgeting decision. Alongside, we will compare the advantages of net present value over other alternative investment criteria in investment decision making. For the third part, we will discuss another key variable of capital budgeting – the cost of capital. In particular, students will learn how to estimate a firm's cost of equity and ultimately its cost of capital. In the final lesson, we will conclude the course with a brief introduction on initial public offering (IPO) activities. We will discuss about some possible reasons, with evidence, for the well-known IPO under-pricing phenomenon.

**Required reading:**

- Textbook: *Essentials of Corporate Finance*, by Ross, Westerfield and Jordan, fourth edition (McGraw Hill).  
Online Learning Center: <http://www.mhhe.com/rwj>
- Lecture Notes: Please download the notes from the course website: <http://webct.ust.hk>

**Class policies:**

To enhance our discussion, it is essential for you to read the assigned chapters of the textbooks and lecture notes before the class. Although I will not take attendance during the class, 5% of your grade will be based on your participation in the class. Frequent missing of classes may lead to missing of the class participation points. In addition, please come to the class on time. As a general rule, if you are late for more than 10 minutes, you should not enter the classroom.

From time to time, I will assign problem sets which cover end-of-chapter questions, and questions from other sources, for your practice. You are **NOT** obliged to hand in your answers to the questions. I will post the solution several days after my assignment. However, it is definitely your benefit to work out the solution yourself because questions of similar types may show up in the quizzes or in the examinations.

During the class, you can feel free to raise your hand and ask me questions or answer my questions. However, you should avoid chatting with your classmates in the class. In addition, please turn off your mobile phones before the class to avoid disturbing other students.

After the class, you are more than welcome to discuss with me your problems during my office hours or by appointment. Forming a small study group also helps you understand the course materials more easily. Since the class schedule for this course is very tight, you should figure out the solution to your problem as soon as possible before another problem comes. You will find the course getting more difficult if you let your previous problems unsolved.

You are encouraged to read business publications, including *The Asian Wall Street Journal*, *The South China Morning Post* (the business section), *The Economist*, *Fortune*, *Business Week*, *Far Eastern Economic Review*, and so forth. If you find some issues interesting, you are also encouraged to share those issues with other students in the class.

### **Grading policies:**

There will be one mid-term examination and one final examination for this course. The allocation of points for your grade is set to be as follows:

1. mid-term examination (40%).
2. final examination (55%).
3. class participation (5%).

The mid-term examination will last for 1 hour and 30 minutes. You will be required to answer multiple-choice questions and numerical questions for the mid-term examination. The final examination will last for 2 to 3 hours. You will be required to answer multiple-choice, numerical and comprehensive questions. Most questions for the two examinations are going to be similar to those practice questions in the problem sets or questions that I have discussed in the class. **Important:** There will be **NO** make-up for the mid-term and final examinations, unless your absence is caused by an accident or illness and you can provide me with a certification from a medical doctor. Please arrange your schedule properly.

You can use a calculator for the examinations. However, a financial calculator is **NOT** allowed. Specifically, your calculator should not include functions that can calculate annuity or present value directly. I will examine your calculators during the quizzes and examinations.

5% of your grade will be based on your class participation. At the end of the course, I will give **SOME** of you the 5% class participation points, based on my impression. Attending classes is only a necessary, but not a sufficient condition for getting the points. My memory is short-lived. You should help me keep you in my mind by frequently asking questions, or answer my questions in the class.

**Course schedule:**

<b>Week</b>	<b>Dates</b>	<b>Topic</b>	<b>Chapters</b>
1	Jun 23	A brief history of financial market	LN
	Jun 25	Overview of financial management	1, LN
1, 2	Jun 27, Jun 30	Financial statements, taxes and cash flow	2, LN
	Jul 2, Jul 4	Working with financial statements	3, LN
3	Jul 7	Time value of money	4, LN
	Jul 9	Discount cash flow (DCF) valuation	5, LN
	Jul 11	Interest rates and bond valuation <i>A practice online quiz</i>	6, LN
4	Jul 14	Mid-term examination	
	Jul 16	Net present value (NPV) and other investment criteria	8, LN
4, 5	Jul 18, Jul 21	Valuation framework and making investment decisions	9, LN
	Jul 23	Equity market and lessons from capital market history	7, 10, LN
5, 6	Jul 25, Jul 28	Risk and return	11, LN
	Jul 30, Aug 1	Cost of capital	12, LN
7	Aug 4	Corporate financing activities: (1) Initial public offerings; and (2) Other forms of equity issuance.	15, LN
	Aug 6	Review session	
	Aug 8	Final examination	

LN = Lecture notes

TBA = To be assigned