



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

**FINA110 - Fundamentals of Business Finance**  
**Summer 2004**

**Instructor:** Mr. Ning GAO ( ? ? )

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**Office Hours:** 2-4 p.m. on Thursdays (or by appointment).

<b><u>Section:</u></b>	<b><u>Time:</u></b>	<b><u>Room:</u></b>
L2	Mon., Wed., & Fri.: 2:00-3:50 p.m.	2465

**Brief Outline of Course:**

This course introduces the fundamental concepts and techniques of business valuation. We will examine time value of money; discounted cash flow valuation; how financial statements are used in valuation; how to identify and value cash flows; how to estimate cost of capital; and how to estimate the value of an asset or a firm. In general, the course gets you familiar with the financial tools for evaluating assets and investment projects. Students in all fields will find it helpful to apply what they learn in this course to their workplace and personal financial planning.

**Grading:**

Quizzes (see <u>Workload</u> below)	15%
Mid-term exam	35%
Final Exam	50%

Note:

1) Quizzes are assigned to each group and will be done in class (see also 'Study/Working Groups' below). If one is absent from a quiz, he/she will not be graded for that one. A student can choose 3 out of the 4 quizzes to be included in the calculation of final performance).

2) No make-up exams or quizzes will be provided except for medical reasons supported by relevant documentation.

**Workload:**

- Read the lecture notes and the textbook.
- There will be four in-class quizzes (group work). All quizzes are close-book, exercised in class and will be graded.
- Practice the Problem sets assigned. There are five of them. It would be rewarding to independently work on the problem sets and make sure that you really understand them after checking their solutions. You don't have to turn in your solutions.

- Examinations: One mid-term and one final are scheduled. The final is cumulative with a focus on the content discussed after mid-term. You'll find some of the exam questions are similar to the questions given in class quizzes, discussed in class or provided in the problem sets.

### **Reading Materials:**

- Lecture Notes: Please download the lecture notes from the course website: <http://webct.ust.hk>. They'll be posted before each lecture.
- Textbook: *Essentials of Corporate Finance*, by Ross, Westerfield and Jordan, fourth edition (McGraw Hill).
- You are encouraged to read business publications, including *Financial Times*, *The Asian Wall Street Journal*, *The South China Morning Post* (the business section), *?* *?* *?* *?* *?* *?*, *?* *?* *?* *?* *?* ( *China Securities Journal*) and so on. Available on ground floor of HKUST library.

### **Study/working groups**

- You need to join a group consists of (around) 5 members. Groups should be formed by end of the second class. I'll also suggest each group to make one appointment to see me in the first few weeks, for a brief chat and get to know each other. The groups are formed to serve the following purpose. A) The four in-class quizzes are assigned as group work (group members get the same grade). You need to join your efforts in working out the quiz problems. B) You'll find it very rewarding to discuss the course content among group members and help each other. C) I encourage members from the same group to sit together in the classes, you'll find it convenient when you are doing in-class quizzes. D) Normally, group members will develop good relationship through laboring out together, which may last for long in your future days.

### **Class Rules:**

- Be on time for each class, although attendance is not mandatory. You'll find it disturbing to crash into the classroom 10 minutes late. As a precaution, I may lock the door 10 minutes after we begin.
- Switch off (or silent) your pagers and mobile phones in classes.
- Please make private conversation only outside of the classroom.
- Raise questions and participate actively in classes. I'll give short time slots for Q&A or discussion. Please do not keep a long backlog of questions because it will be more difficult to understand them later. Normally, each chapter builds on the previous one(s). Like constructing a building – the foundation first, then the ground floor, then the first floor and so on. If you have problems in the earlier part(s), you will not be able to understand the later part(s) properly. Moreover, the level of difficulty increases as the course progresses. It is much easier to get high marks in the Mid-term Exam and it is *more difficult* to get higher marks in the Final Exam. Hence, it is very important to be serious with your studies right from the beginning.
- Check course website regularly. Announcements and lecture notes will be posted there.

**Communication options :**

In Classroom

See me during my office hour

Discussion Board in course website (webct.ust.hk)

Email or call at 23588943 (If you email me your question, I probably will provide the answer on the Discussion Board.

**FAQs:**

What to do Before the first and second class:

- 1) Prepare a photo with your full name, student ID at the back. This will help me to remember you sooner and better.
- 2) Get some rest and relax. Prepare yourself to enjoy the summer finance tour.

What to do Before each class:

- 1) Visit the course website to see if there is any new announcement.
- 2) It will be convenient to print out the lecture note on which you can make notes in class.

Do I need a financial Calculator?

Financial calculator is not a must for this course although from time to time you'll find it convenient to have one. I'll not show how to use financial calculators in classes either. There are paragraphs in the textbook talking about the tips of using financial calculators. The major learning material for using financial calculator should be the manual if you have one. I may use Excel to illustrate some of the calculations in classes. Exam problems will be given in such a way that you can compute the results using the ordinary calculator with reasonable ease.

**COURSE SCHEDULE**  
**FINA110 - Summer 2004**

Week	Date (lecture)	Topic	Reading	Problem Set
1	Jun. 21 (1)	Introduction	Ch.1	
	Jun. 23 (2) Jun. 25 (3)	<b>Time Value of Money</b> Discounted Cash flow Valuation	Ch.4 Ch.5	
2	Jun. 28 (4) Jun. 30	Discounted Cash flow Valuation <b>Quiz 1 on Jun.30</b> covering Ch.1. 4. 5	Ch.5	Set #1
	Jul. 2 (5)	Financial Statements, Taxes and Cash Flow	Ch.2-3	
3	Jul. 5 (6) Jul. 7 (7)	Financial Statements, Taxes and Cash Flow Working with Financial Statements	Ch.2-3 Ch.2-3	Set #2
	Jul. 9	<b>Quiz 2 on Jul. 9</b> covering Ch. 2. 3		
	Jul. 12 (8) Jul. 14 (9)	Valuing Stocks and Bonds Valuing Stocks and Bonds	Ch.6-7 Ch.6-7	Set #3
4	Jul. 16 (10)	Review Session		
	Jul. 19	<b>Mid-term Exam.</b> Covering ch.1 to Ch.7		
5	Jul. 21 (11) Jul. 23 (12)	Net Present Value Making Capital Investment Decisions	Ch.8-9 Ch.8-9	Set #4
	Jul. 26	<b>Quiz 3 on Jul. 26</b> covering Ch. 8 and 9		
6	Jul. 28 (13) Jul. 30 (14)	Some Lessons from Capital Market History Risk and Return	Ch.10-11 Ch.10-11	
	Aug. 2	<b>Quiz 4 on Aug.2</b> covering Ch. 10 and 11		
7	Aug. 4 (15) Aug. 6 (16)	Cost of Capital Final Review	Ch.12	Set #5
	Aug. 9	<b>Final Exam</b>		