

Hong Kong University of Science & Technology

School of Business and Management

Shenzhen MBA Program

FINA 512 – CORPORATE FINANCE

JULY 2005

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COURSE OUTLINE

This core course provides a framework for financial planning and for analyzing the major types of investment decisions made by firms. We start with a discussion of how managers strategically assess their firm's performance and formulate financial plans. We then move on to corporate investment decisions and working capital management. We also examine the concept of risk and return and learn how to estimate the cost of debt, the cost of equity, and the weighted average cost of capital (WACC). A good knowledge of the topics in this course is important for anyone thinking of a career in investment banking, consulting, and corporate management.

PREREQUISITES

A strong background in financial accounting, microeconomics, and business statistics is essential. In addition, you need basic Excel spreadsheet skills.

READINGS

Required Text

- The text for the course is: *Corporate Finance* by Stephen A. Ross, Randolph W. Westerfield, and Jeffrey A. Jaffee, Richard D. Irwin Inc., 7th edition, 2005 (RWJ).
- *Case studies and readings*

COURSE SCHEDULE, READINGS AND DUE DATES

1. JULY 2, 2005 AM **FINANCIAL STATEMENT ANALYSIS**
Case Study: Introduction to Financial Ratios and Financial Statement Analysis, Harvard Business School, #9-193-029.

- July 2, 2005
PM
- FINANCIAL PLANNING**
- Case Study:** Clarkson Lumber Company, Harvard Business School, Case # 9-297-028.
- Readings:*
RWJ: Chapters 1, 2, and 3
2. JULY 9, 2005
AM
- DISCUSSION ON FINANCIAL PLANNING**
- Case Study:** SureCut Shears Inc., Harvard Business School Case # 9-297-013
- PROBLEM SET
1 DUE
- THEORY OF VALUE**
- The present value of a stream of future cash flows.
- RWJ: Chapter 4: Net Present Value
- VALUATION OF BONDS AND STOCKS**
- Valuation of securities issued by firms
- RWJ: Chapter 5: How to Value Bonds and Stocks
- JULY 9, 2005
PM
- ALTERNATIVES INVESTMENT DECISION RULES**
- Payback, discounted payback, accounting rate of return, and internal rate of return
- Case study:** Investment Analysis and Lockheed TriStar, Harvard Business School Case # 9-291-031
- Readings:*
RWJ: Chapter 6: Some Alternative Investment Rules
3. JULY 16, 2005
AM
- DETERMINING PROJECT CASH FLOWS**
- CASH FLOW ANALYSIS**
- Net cash flows
 - Project's net working capital
- INCREMENTAL CASH FLOW PRINCIPLE**
- Readings:*
RWJ, Chapter 7, Net Present Value and Capital Budgeting

- JULY 16, 2005
PM
- Case study:** Ocean Carriers, Harvard Business School Case # 9-202-027
- DECISION TREES**
- Case study:** Merck & Company: Evaluating a Drug Licensing Opportunity, Harvard Business School Case # 9-201-023
- Readings:*
RWJ, Chapter 8 (Sections 8.1 and 8.2)
4. JULY 23, 2005
AM
- SHORT-TERM FINANCIAL MANAGEMENT**
- The cash conversion cycle
 - Cost trade-offs in short-term financial management
- PROBLEM SET
3 DUE
- WORKING CAPITAL MANAGEMENT**
- Accounts receivables management
 - Cash management
 - Collections
 - Accounts payable management
- Case Study:** Dell's Working Capital, Harvard Business School, Case # 9-201-029
- Readings:*
RWJ: Chapters 26, 27, and 28
- JULY 23, 2005
PM
- ESTIMATING THE COST OF CAPITAL**
- Cost of debt and the cost of equity capital
 - Weighted average cost of capital (WACC)
 - Divisional cost of capital
- Case Study:** Marriott Corporation: The Cost of Capital (Abridged), Harvard Business School Case # 9-289-047.
5. JUNE 30, 2005
- Final Exam, 10AM to 1 PM