

HONG KONG SHUE YAN UNIVERSITY
Department of Economics and Finance
 BA (Hons) in Economics and Finance
 (Fall 2017)

Course Title : **Introduction to Corporate Finance**
Course Code : FIN 245
Year of Study : 2
Number of Credits : 3
Duration in Weeks : 15
The languages of teaching and learning : English supplemented by Chinese
The language of assessment : English
Contact Hours Per Week : Lecture (2 hours)
 Group Session (1 hour)
Pre-requisite Course(s) : ACCT 100 Introduction to Financial Accounting
 ECON 113 Mathematics for Economics and Finance
 or by the consent of instructor
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1. Course Aims

Integrating Accounting and Finance, the theory and practice of corporate finance in this course enable students to address the concepts and techniques of valuation of cash flows, capital budgeting decisions, risk and return, cost of capital, capital structure theories and decisions, dividend theories and policy, working capital management, and financial planning.

2. Course Intended Learning Outcomes, Teaching and Learning Activities, and Assessment Tasks

Course Intended Learning Outcomes (CILOs)	
Upon completion of this course, students should be able to:	
CILO 1	explain the basic concepts, theories and decision-making rules for financial investments;
CILO 2	describe various valuation methods and apply the methods to analyze different financial securities including equity and bonds;
CILO 3	develop the long-term financial policy and short-term financial planning and management (including capital budgeting, capital structure and working capital management)
CILO 4	analyze corporate finance practice and applications (including traditional Chinese values --- trust and guanxi) in Hong Kong;
CILO 5	demonstrate self-management skills, numeracy skills and presentation skills through the preparation of the Term Paper Progress Report and Term Paper Presentation.

Teaching and Learning Activities (TLAs)	
The following teaching and learning activities are designed for this course to achieve the intended learning outcomes mentioned above. About 2/3 of the contact hours are allocated to lectures and the remaining contact hours are allocated to various learning activities.	
TLA 1	Lecture: Lectures are designed to introduce how limited companies assess and make decision in investment and how they raise the fund to pay for these investments.
TLA 2	Small Group Discussion: Students are divided into groups to help them recognize the main concepts and theory in the lectures and to describe (1) how to apply the concept of value maximization in general corporate finance setting, and (2) how to carry out standard financial techniques such as capital budgeting, project valuation, and cost of capital calculations.
TLA 3	Classroom Exercise: Assigned exercises are used to review the concepts delivered in the lectures and offer an opportunity for self-examination of the strengths and weaknesses of their class learning.
TLA 4	Term Paper (in group): Term paper is used to enhance students' abilities to apply basic concepts and theories to analyze current corporate finance issues.
TLA 5	Progress Report: In order to provide assistance to students' writing of the term paper, students are required to submit two progress reports. Guidance and suggestions will be provided for students before their submission of the term papers.
TLA 6	Presentation: Presentation is used to demonstrate students' understanding on the content of the term paper and provide chances for them to practice their presentation skills.
TLA 7	Discussion of newspaper and magazine articles: By providing some articles relating to the area of corporate finance in newspapers and magazines, students are encouraged to apply theories and perspective to understand current events in the real world. They are provided opportunities to discuss the articles and ask questions.

Assessment Tasks (ATs)		
Continuous Assessment:		
AT 1	Attendance and Participation	10%
AT 2	Quizzes	15%
AT 3	Term Paper (group)	15%
AT 4	Presentation (group)	5%
	(individual)	5%
Final Assessment:		
AT 5	Final Examination	50%
Total		100%

AT1: Attendance and Participation (10%)

Grade	Descriptors		
	Actual physical attendance	Punctuality	Participation in class
Excellent A, A-	Attends all classes.	Always punctual for classes.	Participates actively in classes.
Good B+, B, B-	Attends all classes.	Late to class 2 to 3 times.	Participates noticeably in classes.
Satisfactory C+, C, C-	Absent from class once without any acceptable reason.	Late to class 4 to 5 times.	Participation is sporadic and passive.
Marginal D+, D	Absent from class once without any acceptable reason.	Late to class 6 to 7 times.	Participation in classes is rare.
Fail E, F	Absent from class once without any acceptable reason.	Late to class more than 7 times.	No participation in classes.

AT2: Quiz (20%)

The quiz will be conducted in week 8 and the testing format of the quiz will be Multiple-Choice questions. The quiz will cover the course content from week 1 to week 8.

Grade	Descriptors
Excellent A, A-	Evidence of substantial understanding of the concepts covered in the course.
Good B+, B, B-	Good understanding of the concepts covered in the course.
Satisfactory C+, C, C-	Fair understanding of the concepts covered in the course.
Marginal D+, D	Marginal understanding of the concepts covered in the course.
Fail E, F	Poor understanding of the concepts covered in the course.

AT3: Term Paper (10%)

Grade	Descriptors
Excellent A, A-	Well written and well presented; well-referenced and demonstrates the use of a variety of sources; excellent understanding of subject area; good academic content and analytical input; well organized and connected.
Good B+, B, B-	Some minor errors in writing and presentation; demonstrates evidence of relevant reading; very good understanding of subject area; acceptable academic content and analytical input; organized but links could be clearer.
Satisfactory C+, C, C-	Some errors in writing and presentation; demonstrates evidence of some relevant reading; good understanding of subject area; evidence of some academic content and analytical input; some organization.

Marginal D+, D	Many errors in writing and presentation; demonstrates evidence of some reading and an understanding of the subject; show a satisfactory understanding of key concepts and issues; little academic content and analytical input; limited organization.
Fail E, F	The paper is not written in a clear and logical fashion; it does not use enough appropriate literature to support the body of the text, and literature has not been correctly referenced; no academic content and analytical input, this is merely a general description of other people's research findings; poor organization; the paper is largely incomplete; most of the material is plagiarized.

AT4: Term Paper Presentation (10%)

Grade	Descriptors
Excellent A, A-	Present confidently and convincingly; excellent verbal and visual presentation skills; excellent coverage of materials and contents; excellent organization and time management of the presentation.
Good B+, B, B-	Good verbal and visual presentation skills; good coverage of materials and contents; good organization and time management of the presentation.
Satisfactory C+, C, C-	Acceptable verbal and visual presentation skills; adequate coverage of materials and contents; adequate organization and time management of the presentation.
Marginal D+, D	Barely acceptable verbal and visual presentation skills; marginal coverage of materials and contents; poor organization and time management of the presentation.
Fail E, F	Not attempted; no preparation at all

AT5: Final Examination (50%)

Final examination will be conducted at the end of the semester. The testing format of the examination will include Multiple-Choice and Essay questions.

Grade	Descriptors
Excellent A, A-	Evidence of substantial understanding of the issues covered in the entire course; superior capacity for analyzing the issues critically and answering the questions from multiple perspectives; strong capability to integrate relevant concepts in answering the questions; extensive elaboration of ideas and justifying opinions with ample evidences.
Good B+, B, B-	Good understanding of the issues covered in the entire course; evidence of good capacity for analyzing the issues critically and answering the questions from multiple perspectives; evidence of good capability to integrate relevant concepts in answering the questions; sufficient elaboration of ideas and justifying opinions with abundant evidences.
Satisfactory C+, C, C-	Fair understanding of the issues covered in the entire course; adequate capacity for analyzing the issues critically and answer the questions from multiple perspectives; adequate capability to integrate relevant concepts in answering the questions; reasonable elaboration of ideas and justifying opinions with some real life examples.

Marginal D+, D	Marginal understanding of the issues covered in the entire course; marginal capacity for analyzing the issues critically and answering the questions from multiple perspectives; marginal capability to integrate relevant concepts in answering the questions; fair elaboration of ideas and justifying opinions with few real life examples.
Fail E, F	Poor understanding of the issues covered in the entire course; weak capacity for analyzing and answering the questions from multiple perspectives; poor capability to integrate relevant concepts in answering the questions; weak elaboration of ideas and no justification of opinions from real life examples.

Alignment of Course Intended Learning Outcomes, Teaching and Learning Activities, and Assessment Tasks		
Course Intended Learning Outcomes	Teaching and Learning Activities	Assessment Tasks
CILO 1	TLA 1-3	AT 1-2, 5
CILO 2	TLA 1-3	AT 1-2, 5
CILO 3	TLA 1-3	AT 1-2, 5
CILO 4	TLA 4-7	AT 3-5
CILO 5	TLA 4-7	AT 3-5

Alignment of Teaching and Learning Activities, Assessment Tasks and Types of Generic Skills Outcomes Achieved		
Types of Generic Skills Outcomes Achieved	Teaching and Learning Activities	Assessment Tasks
Study skills	TLA 1: Lecture	AT 1: Attendance and Participation AT 2: Quizzes AT 5: Written Examination
Communication skills, problem solving skills and collaboration skills	TLA 2: Small Group Discussion	
Collaboration skills and problem solving skills	TLA 4: Term Paper (in groups)	AT 3: Term Paper
Self-management skills	TLA 5: Term Paper Progress Report	
Presentation skills and communication skills	TLA 6: Term Paper Presentation	AT 4: Term Paper Presentation
Communication skills	TLA 7: Discussion of newspaper and magazine articles	AT 1: Attendance and Participation
Numeracy skills and problem solving skills	TLA 3: Classroom Exercise	AT 1: Attendance and Participation

3. Course Content & Schedule

<u>Week No.</u>	<u>Lecture Topics, Reading Material and Teaching and Learning Activities (TLAs)</u>	<u>CILOs</u>
1-2	<p>Introduction to Corporate Finance</p> <p>a. From Financial Accounting to Corporate Finance b. Corporate governance of listed companies c. Agency problem d. Goal of financial management</p> <p>Principal Reading: T: Ch.1-2; Kaplan (2012): Study Session 11 Supplementary Reading: Lumby/Jones (2004): Ch.1&2;</p>	1
3	<p>Valuation of Future Cash Flows</p> <p>a. The Time Value of Money b. Discounted Cash Flow Valuation c. Interest Rates and Bond Valuation d. Stock Valuation</p> <p>Principal Reading: T: Ch.5-8 Supplementary Reading: Brealey (2015): Ch. 5-9</p>	1,2
4	<p>Investment Decisions</p> <p>a. Net Present Value and Other Investment Criteria b. Making Capital Investment Decisions c. Project Analysis and Evaluation</p> <p>Principal Reading: T: Ch.9-11 Supplementary Reading: Lumby/Jones (2004): Ch.3-6; Kaplan (2012): Study Session 11 *Your group is required to submit the term paper progress report 1 in this week.</p>	1,2,3
5	<p>Risk and Return</p> <p>a. Some Lessons from Capital Market History b. Return, Risk, Portfolio and the Security Market Line c. Business risk and financial risk</p> <p>Principal Reading: T: Ch.12 & 13 Supplementary Reading: Lumby/Jones (2004): Ch.10-12; Kaplan (2012): Study Session 11</p>	1,2,3
6	<p>Corporate Lending</p> <p>a. Kinds of commercial loans and (standby) credit facilities from financial institutions b. Examples of loans: revolving credits, bank term loans, letters of credit and retail credit accounts, and syndicate loans c. Credit risk analysis and management in financial institutions</p>	1,2,3,4

Principal Reading: T: Ch 18 & 20

Supplementary Reading: Saunders (2008): Ch.11-13; Brealey (2017): Ch.18; Rose (2010): Ch.9; Low (2000); Hsu (2006)

7 Debt Financing

1,2,3

- a. Alternatives to bank financing: bonds, Euro-notes; commercial papers; and Medium Term Notes facilities
- b. Bond characteristics
- c. Bond pricing with and without embedded options
- d. Bond yields
- e. Default risk and bond rating
- f. Characteristics of convertible bonds
- g. Characteristics and terms of leasing
- h. Innovations in the debt markets: Mortgage backed securities (MBS), Collateralized Mortgage Obligations (CMOs), Collateralized Debt Obligations (CDOs) and ABS
- i. Choice of debt markets for bond issuance
- j. The issuance of RMB-denominated bonds in Hong Kong

Principal Reading: T: Ch.3, 19 & 27; Kaplan (2012): Study Session 15

Supplementary Reading: Rose (2010): Ch.9; Fabozzi (2010): Ch.16 & 18; Jordan (2009): Ch. 20; Hsu (2006)

*Updated learning materials related to Hong Kong will be downloaded from the official websites such as SFC, HKEX, The Chin Family and so on.

8 Equity Financing

2,3,4

- a. Features of common stocks and preferred stocks.
- b. Exchange-Traded Funds (ETF); convertible securities and warrants and American Depositary Receipts (ADRs).
- c. Initial Public Offering (IPO), and cost & benefits of new issues
- d. Methods of listing; offer for subscription; offer for sale; open offer and rights issues.
- e. Issuance of H-shares and dual listing in Hong Kong and Mainland
- f. Development of equity markets in Hong Kong

Principal Reading: T: Ch 8, 15, 21 & 24

Supplementary Reading: Brealey (2017): Ch.14 & 15; McGuinness (1999): Ch.1, 2, 5, 7 & 14

*Updated learning materials related to Hong Kong will be downloaded from the official websites such as SFC, HKEX, The Chin Family and so on.

- 9 Cost of Capital** **1,2,3**
- a. Cost of capital (equity, debt, preferred stock and retained earnings)
 - b. Weight average cost of capital (WACC)
 - c. Raising capital
- Principal Reading:** T: Ch.14 & 15
Supplementary Reading: Brealey (2015): Ch.13 & 14; Kaplan (2012): Study Session 11
- 10-11 Long-term Financial Policy** **1,2,3,4**
- a. Financial leverage and capital structure policy
 - b. Dividends and dividend policy
- Principal Reading:** T: Ch.16 &17
Supplementary Reading: Lumbly/Jones (2004): Ch.22; Brealey (2015): Ch18; Kaplan (2012): Study Session 11
 *Your group is required to submit the term paper progress report 2 in this week.
- 12 Short-term Financial Planning and management** **1,2,3**
- a. Short-term finance and planning
 - b. Cash and liquidity management
 - c. Credit and inventory management
- Principal Reading:** T: Ch.18-20
Supplementary Reading: Brealey (2015): Ch19 & 20.
- 13 Selected Topics in Corporate Finance** **1,3,4**
- a. Mergers and acquisitions
 - b. International corporate finance
 - c. Risk management
 - d. Option valuation
- Principal Reading:** T: Ch.26.
Supplementary Reading: Brealey (2015): Ch21
- 14-15 Group Term Paper Presentation** **5**
- *Your group is required to submit the term paper in week 14 and the presentation will be arranged in week 15.

4. Resources

Textbook:

- T Ross, S. A., Westerfield, R. W., Jordan, B. D., Lim, J. and Tan, R., 2016 (Asia Global second edition). *Fundamentals of Corporate Finance*. Singapore: McGraw-Hill.

Reading List:

Brealey, R.A., Myers, S.C. & Marcus, Alan J., 2015. *Fundamentals of Corporate Finance*. 8th ed. Singapore: McGraw-Hill.

Brealey, R.A., Myers, S.C. & Allen, F. 2017. *Principles of Corporate Finance*. 12th ed. Singapore: McGraw-Hill.

Bruner, R. F., 2007. *Case Studies In Finance: Managing for Corporate Value Creation*. 5th ed. Singapore: McGraw-Hill.

Das, Satyajit, 2001. *Structured product and hybrid securities*. 2nd ed. Singapore: Wiley.

Fabozzi, F. J., 2010. *Bond Markets, Analysis and Strategies*. 7th ed. Singapore: Pearson.

Hsu, Berry Fong-Chung et al. 2006. *Financial markets in Hong Kong: law and practice*. New York: Oxford University Press.

Jordan, Bradford D. & Miller, Thomas W., 2009. *Fundamentals of Investments: Valuation and Management*. 5rd ed., Singapore: McGraw Hill.

Kaplan, 2012. *Schweser CFA Level 1 Study Notes*. Schweser.

Low, Chee Keong 2000. *Financial markets in Hong Kong*. New York: Springer.

Lumby, Steve & Jones, Chris 2004. *Corporate Finance Theory and Practice*. 7th ed. Singapore: Thomson Learning.

McGuinness, P. B., 1999. *A guide to the equity markets of Hong Kong*. New York: Oxford University.

Rose, P. S. & Hudgins, S.C. 2010. *Bank Management & Financial Services*. Singapore: McGraw-Hill.

Saunders, A. & Cornett, M. M., 2008, *Financial Institutions Management: A Risk Management Approach*, 6th ed., McGraw Hill.

Useful Websites:

Securities and Futures Commission	http://www.sfc.hk/web/EN/index.html
Hong Kong Exchanges and Clearing Limited	http://www.hkex.com.hk/eng/index.htm
The Chin Family	http://www.thechinfamily.hk/web/en/
Useful Links–Money, Banking and Finance	http://fs3.hksyu.edu/~joewong/link.htm