

FIN2010C
Financial Management
Semester One (2009 - 2010)

Instructor: Dr. Elena Keung Yiu-ling
Office: Rm 103A, Leung Kau Kui Building
Office hrs: By appointment
Phone: 2609-7758
Fax: 2603-6586
Email: elenakeung@cuhk.edu.hk

Teaching

Assistant: Miss Iris Au
Office: LG03, Leung Kau Kui Building
Office hrs: 3 - 5 pm Tuesday
Phone: 2609-7840/8566
Email: irisau@baf.msmail.cuhk.edu.hk

Course Objectives & Description: This course intends to provide students the concepts in the area of financial management. We will start with some basic valuation techniques. After that, we will focus on management 's efforts on maximizing the value of a firm and the potential conflicts between the management's own interests and shareholders' interests. Major topics covered include agency problems and corporate governance, capital budgeting, relationship between risk & return, capital structure, dividend policy and working capital management.

Suggested Textbook

Fundamentals of Corporate Finance by Ross, Westerfield & Jordan, 8th edition, McGraw-Hill Book Company.

Grading:

In summary, there will be two tests. Though the last test will be cumulative, topics covered after the first test will carry more weight and students will be notified of the topics to be covered in the exam in due course. I strongly suggest you to try the questions at the end of each chapter because they are very useful in preparing for the tests. Solutions can be found from the WebCT.

Requirements	Weight
Test 1 (October 28, Wednesday)	35%
Test 2	45%
Two Assignments	20%
Total	100%
	=====

The final grade will be assigned based on a relative frequency distribution (percentile ranking) of the total points accumulated over the entire semester. This means that your final grade will be determined by the relative performance of other students in the class as well as the overall performance of the entire class. **However, you need to pass the second test in order to pass this course. That is, you need to get at least 50% in Test 2 to pass this course.**

Course Policies and General Information

1. The class lectures and overheads represent the polestar of this course. Use them as a guide to where your studying efforts should be focused. I strongly encourage you to try the end-of-chapter questions.
2. Read the assigned chapter before the lecture and familiarize yourself with the background information. This will help you understand the lecture.
3. **No make-up test** will be given. If you do not have a legitimate reason to miss the exam, you will be assigned a score of zero for the test. Thus, please talk to me as soon as you know you may have some problem with the test date.
4. Attention is drawn to University policy and regulations on honesty in academic work, and to the disciplinary guidelines and procedures applicable to breaches of such policy and regulations. Details may be found at <http://www.cuhk.edu.hk/policy/academichonesty/> . With each assignment, students will be required to submit a **statement** that they are aware of these policies, regulations, guidelines and procedures.

Coverage of the Course

Agency problems and corporate governance (Ch. 1)

- Objective of a firm
- Manager & shareholders
- Bondholders and shareholders

Valuation of Future Cash Flows

- Introduction to Valuation: The Time Value of Money (Ch. 5)
- Discounted Cash Flow Valuation (Ch.6)
- Interest Rate & Bond Valuation (Ch. 7)
- Stock Valuation (Ch. 8)

Capital Budgeting (Ch. 9, 10, 11)

- Formation of cash flows
- Investment decision rules
- Project Analysis & Evaluation
- Problems with selection criteria

Risk and Return (Ch. 12, 13, 14)

- Expected returns and variances
- Risk: Systematic vs. unsystematic
- Diversification and portfolio risk
- CAPM and SML
- Options and Corporate Finance

Cost of capital (Ch. 15)

- Cost of equity
- Cost of debt
- Cost of preferred stock
- Weighted average cost of capital

Financing Leverage and Capital Structure Policy (Ch. 17)

- Tax benefits of the employment of debt
- Cost of financial distress
- Optimal capital structure

Dividends & Dividend policy (Ch.18)

- Dividend irrelevance thoughts
- Analyzing cash returned to shareholders
- Empirical evidence on dividend policy

**** I reserve the rights to make appropriate changes concerning the addition and deletion of topics, assigned readings and the order of presentation.**