

Course Title	:	Financial Management
Course Code	:	BUS2201
Recommended Study Year	:	2
No of Credits/Term	:	3
Mode of Tuition	:	Sectional Approach
Class Contact Hours	:	3 hours per week
Category in Major Programme	:	Functional Core
Prerequisites	:	BUS1102 Statistics for Business or Other basic statistics courses delivered by other departments, as approved by the Department of Finance and Insurance; and , BUS1103 Financial Accounting; and , BUS2105 Microeconomics for Business or ECO2101 Introduction to Economics

Brief Course Description

The course is an introduction to corporate finance and, in particular, financial decision making by firms and individuals. Financial management has been defined as the acquisition, management and financing of resources for firms. A basic knowledge of finance is important for all students majoring in business and this course is designed to fill that need. The course is also a pre-requisite for students who wish to later enroll in more advanced courses in finance.

Aims

The course aims to introduce all students majoring in business the fundamental knowledge on corporate finance and financial decision making by firms and individuals.

Learning Outcomes (LOs)

On completion of this course, students will be able to:

1. Describe the corporate organizational structure as well as the nature of agency conflicts inherent in it.
2. Construct basic financial statements (balance sheet, income statement and cash flow statement); build simple financial planning models (pro-forma statements); and use financial statement information to analyze company performance (ratio analysis).

3. Solve Time Value of Money (TVM) problems involving Present Value (PV), Future Value (FV), Annuity (Annuity, Deferred Annuity and Annuity Due), and Perpetuity (No Growth and Constant Growth Perpetuity).
4. Make investment decisions using investment criteria such as Net Present Value (NPV), Profitability Index (PI), Internal Rate of Return (IRR), and Payback Period (PB).
5. Value standard financial instruments such as bonds and stocks using TVM skills.
6. Solve capital budgeting problems by identifying relevant cash flows and by calculating relevant cost of capital (risk adjusted).
7. Define/determine/calculate risk, define/determine/calculate return as well as describe the risk and return relation in the context of the Capital Asset Pricing Model (CAPM).
8. Explain the basic concepts, definitions and implications associated with market efficiency.
9. Compute the Weighted Average Cost Capital (WACC) and understand capital structure decisions.

Indicative Contents

Overview of Corporate Finance

Definition of Corporate Finance; Goal of Financial Management; Agency Problems and Control of the Corporation; Ethical Concerns.

Time Value of Money

Future Value and Compounding; Present Value and Discounting.

Discounted Cash Flow Valuation

Future and Present Values of Multiple Cash Flows; Annuities and Perpetuities; Comparing Rates; Calculating and Comparing Effective Annual Rates; Loan Types and Loan Amortization.

Basic Financial Statement Analysis

Review of Balance Sheet, Income Statement and Cash Flow Statement; Standardized Financial Statements; Ratio Analysis; Du Pont Identity; Industry and Country Variations.

Long-term Financial Planning

Functions of Planning; Financial Planning Models; Caveats Regarding Financial Planning.

Interest Rates and Bond Valuation

Basics of Bonds; More Bond Features; Bond Ratings; Different Types of Bonds; Inflation and Interest Rates; Determinants of Bond Yields.

Stock Valuation

Common Stock Valuation; Features of Common and Preferred Stocks; International Stock Markets.

Raising Capital

Initial Public Offers; Underwriters; Seasoned Offers; New Equity Sales and the Value of the Firm; Costs of Issuing Securities.

Capital Budgeting

Net Present Value; Internal Rate of Return; Other Investment Criteria; Relevant Project Cash Flows; Pro Forma Financial Statements and Project Cash Flows; Special Cases of Discounted Cash Flow Analysis;; Break-Even Analysis.

Risk and Return

Variability of Returns; Capital Market Efficiency; Expected Returns and Variances; Portfolios; Surprises and Unexpected Returns; Systematic and Unsystematic Risks; Diversification and Portfolio Risk; Beta and Capital Asset Pricing Model.

Cost of Capital

Cost of Equity; Costs of Debt and Preferred Stock; Weighted Average Cost of Capital; Divisional and Project Costs of Capital.

Long-term Financial Policy

Capital Structure; Effect of Financial Leverage; Capital Structure Decisions.

Teaching Method

Class time will be devoted to lecture, discussion, and problem solving.

Measurement of Learning Outcomes

1. Common tests gauge students' mastery of basic skills and tools commonly used in solving financial problems. (LO1, LO2, LO3, LO4 and LO5)
2. Open-end questions and structural questions of the examination assess students' understanding of theories and concepts as well as their ability to articulate the acquired knowledge. (LO6, LO7, LO8 and LO9)
3. Workout problems measure students' mastery of financial problem-solving techniques and skills. (LO1, LO2, LO3, LO4, LO5, LO6, LO7, and LO8)
4. Term project evaluates students' ability to collect and analyze real life financial information of companies. The group project also helps develop teamwork. (LO1, LO2, LO3, LO4, LO5, and LO6)

5. Since this course is the prerequisite of all other finance courses, the instructors give feedback on the students' fulfillment of the learning outcomes of this course. (LO6, LO7, and LO8)

Assessment

Continuous Assessment: Term Project 15%

This team-based term-based project requires students to collect financial statements and other relevant information from listed companies in the Stock Exchange of Hong Kong. Students will use the financial information they collected to produce a report containing an analysis of financial performance and investment recommendations.

Continuous Assessment: Two Common Tests 35%

Common tests will use computational and conceptual questions to test students' mastery of basic skills and tools commonly used in solving financial problems. Open-end and short essay questions may also be given to test students' ability to articulate understanding of key concepts.

Examination: Cumulative Final 50%

Final examination tests will rely more heavily on workout problems, short essays, and open-end questions to gauge students' financial problem-solving skills and their ability to articulate their understanding of key financial concepts.

Required/Essential Reading

Ross, Westerfield, Jordan, Lim and Tan, *Fundamentals of Corporate Finance*, latest edition, McGraw-Hill.

Recommended/Supplementary Readings

For alternative presentation of similar topics:

Brealey, R. A., S. C. Myers & A. J. Marcus, *Fundamentals of Corporate Finance*, 8th ed., McGraw-Hill, 2014.

For broader coverage in investment and financial institutions:

Bodie, Z., R. C. Merton, & D. L. Cleeton, 2nd ed., *Financial Economics*, Prentice Hall, 2009.

For more advanced discussions:

Ross, S. A., R. W. Westerfield, J. Jaffe & B. D. Jordan, *Modern Finance Management*, 8th ed., McGraw-Hill, 2008.

Important Notes

- (1) Students are expected to spend a total of 6 hours (i.e. 3 hours of class contact and 3 hours of personal study) per week to achieve the course learning outcomes.
- (2) Students shall be aware of the University regulations about dishonest practice in course work, tests and examinations, and the possible consequences as stipulated in the Regulations Governing University Examinations. In particular, plagiarism, being a kind of dishonest practice, is “the presentation of another person’s work without proper acknowledgement of the source, including exact phrases, or summarised ideas, or even footnotes/citations, whether protected by copyright or not, as the student’s own work”. Students are required to strictly follow university regulations governing academic integrity and honesty.
- (3) Students are required to submit writing assignment(s) using Turnitin.
- (4) To enhance students’ understanding of plagiarism, a mini-course “Online Tutorial on Plagiarism Awareness” is available on <https://pla.ln.edu.hk/>.