

**School of Accounting and Finance**  
**The Hong Kong Polytechnic University**

**AF3313 Business Finance**  
**2019/2020 Semester TWO**

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\* Subject Coordinator

# Lecturer

^ Tutors for virtual tutorials (a.k.a. e-tutorials)

**Role and Purpose**

This subject contributes to the achievement of the BBA Outcomes by enabling students to develop strong analytical skills and critical thinking (Outcome 4), apply financial methods to analyze business problems (Outcome 7), apply basic financial theories, analyze financial reports and understand the operations of financial markets (Outcome 9 and Outcome 12), and present and communicate in English effectively (Outcome 1).

**Learning Outcomes**

Upon completion of the subject, students will be able to:

- a. Identify the major responsibilities of financial managers;
- b. Apply different investment appraisal techniques and evaluate the limitations;
- c. Apply the portfolio theory to construct a diversified portfolio;
- d. Determine the corporate cost of capital and
- e. Analyze the key characteristics of working capital and its individual elements.

## **Indicative Contents**

### **Introduction**

Corporate Goal. The Agency Problem and Control of the Corporation.

### **Valuation of Securities**

Time Value of Money. Valuation of Stocks and Bonds.

### **Investment Appraisal Techniques and the Limitations**

Payback Period. Internal Rate of Return. Net Present Value. Profitability Index. Incremental Cash Flows and Capital Budgeting. Investments of Unequal Lives.

### **Risk Analysis, Real Options and Capital Budgeting**

Decision Trees. Sensitivity Analysis. Scenario Analysis. Breakeven Analysis.

### **Portfolio Theory**

Risk Statistics. Opportunity Set and Efficient Set. Capital Market Line. Capital Asset Pricing Model. The Security Market Line.

### **Cost of Capital**

Beta. Cost of Equity Capital. Cost of Debt. Weighted Average Cost of Capital.

### **Net Working Capital Management**

Short-term Finance and Planning. Cash Management. Credit Management.

## Schedule

Class	Topic	Readings	Tutorial Questions
1 (Week of Feb 10)	Introduction to Corporate Finance (Online Teaching & Self Learning)	Ch1	Ch2: Financial Statements & Cash Flows (e-tutorial)
2 (Week of Feb 17)	Discounted Cash Flow Valuation (Online Teaching & Self Learning)	Ch4	Ch2: 3,8,13,14,16 (e-tutorial)
3 (Week of Feb 24)	NPV & Other Investment Rules (Online Teaching & Self Learning)	Ch5	Ch4: 15,23,26,50,70 (Online tutorial)
4 (Week of Mar 2)	Making Capital Investment (Online Teaching & Self Learning)	Ch6	Ch5: 3,8,14,22,23 (Online tutorial)
5 (Week of Mar 9)	Risk Analysis & Capital Budgeting (Online Teaching & Self Learning)	Ch7	Ch6: 2,7,14,20,30,31 (Online tutorial)
<b>RECESS PERIOD (Mar 16 – Mar 29)</b>			
6 (Week of Mar 30)	Valuation of Bonds & Stocks	Ch8	Ch7: 7,9,13
7	Risk & Return/ Midterm Review	Ch9&10	Ch8: 14,27 Revision for Basic Stats: Mean / Expected return, SD, Cov, Corr, Portfolio expected return, Portfolio SD, Security / Portfolio Beta...
8	Consultation for midterm – Tutors will use tutorials to do revision and answer questions		
9	Capital Asset Pricing Model	Ch11	Ch9: 14,33,34 Revision for Basic Stats – cont'd <i>Ch10: 4,8,15,21,22 (Self-study)</i>
10	Risk, Cost of Capital & Capital Budgeting	Ch13	Ch11: 9,16,18,30,37
11	Short-Term Finance and Planning/ Cash Management/ Credit & Inventory Management	Ch26, 27, & 28	Ch13: 7,12,13,16,17 (e-tutorial)
12	Course Review		Ch26: 4,6; Ch27: 10; Ch28: 9,14 (e-tutorial)
13	Consultation		Hand back midterm scripts to students

## **Assessment Methods\*\***

### Continuous Assessment:

Participation (Tutorial sessions)	5%
Midterm Test ( <b>Apr 18</b> ; 2:15-3:30pm)	20%
Individual Assignment (Due: May 15 before 5pm)	15%
Final Examination	<u>60%</u>
	100%

\*\*To pass this subject, students are required to obtain Grade D or above in **BOTH** the Continuous Assessment and Final Examination components.

### Participation

In-class participation demonstrates how well students can apply the financial methods to analyze business problems (Outcome 7) and apply the basic financial theories (Outcome 9) and present in English effectively (Outcome 1).

Students are required to actively participate in tutorial sessions. Participation scores are based on attendance rate and classroom performance.

### Individual Written Assignment

Written assignments assess the analytical skills (Outcome 4) and English writing skills of students (Outcome 2).

Students are required to submit one written assignment (with a lower limit of 700 English words) to their own tutors before the deadline. Students will be evaluated upon accuracy, conciseness, presentation, writing style, and overall clarity. More information will be posted on blackboard in due course.

### Midterm Test and Final Examination

Midterm test and final examination show whether students can apply the financial methods to analyze business problems (Outcome 7) and apply the basic financial theories (Outcome 9) and communicate in written English effectively (Outcome 2).

The midterm test covers Topic 1 to Topic 5 (Chapters 1, 2, 4-7) and contains several short questions. Time allowed is 75 minutes. Students are required to answer **ALL** questions. Venue will be announced on blackboard in due course.

Final examination is comprehensive and contains 4 to 5 long questions with multiple parts. Time allowed is 3 hours. Students are required to answer **ALL** questions.

### **Indicative Teaching Approach**

The mass lectures cover the basic concepts and theories. Tutorial sessions allow students to discuss the lectures and present the applications of financial methods in smaller groups.

### **Prescribed Textbook**

Ross, Westerfield, Jaffe, Lim, Tan and Wong, *Corporate Finance*, Asia Global Edition, McGraw-Hill, 2015.

### **GRADING**

Assessment grades shall be awarded on a criterion-referenced basis, and students are passed on merit and graded according to their true performance.

#### **(i) Class Participation**

<b>Grade</b>	<b>Criteria and Standards</b>
A to A+	Demonstrate an excellent level of active and professional participation in the seminars by: (a) asking and answering questions, and (b) exchange of opinions among classmates and group members
B to B+	Demonstrate a good level of active and professional participation in the seminars by: (a) asking and answering questions, and (b) exchange of opinions among classmates and group members
C to C+	Demonstrate a reasonable level of participation in the seminars by: (a) asking and answering questions, and (b) exchange of opinions among classmates and groups members
D to D+	Demonstrate a marginally acceptable level of participation in the seminars by: (a) asking and answering questions, and (b) exchange of opinions among classmates and groups members
F	Unable and unwilling to participate in the seminars by: (a) asking and answering questions, and (b) exchange of opinions among classmates and groups members

(ii) **Individual Written Assignment – Technical Contents**

<b>Grade</b>	<b>Criteria and Standards</b>
A to A+	Demonstrate a strong understanding of the concepts and issues of the assigned topic Have an element of originality Reflect student's own "voice" and opinions with critical evaluation and analysis Well written essay with recommending and reflecting
B to B+	Demonstrate a good level of understanding of the concepts and issues of the assigned topic Use and apply a range and a diversity of source materials in support Well written essay with application of the ideas
C to C+	Demonstrate a basic level of understanding of the concepts and issues of the assigned topic Use the relevant materials in the course Acceptable written essay
D to D+	Demonstrate a minimum level of understanding of the concepts and issues of the assigned topic Use the basic materials in the course Marginally acceptable written essay
F	Fail to demonstrate a minimum level of understanding of the concepts and issues of the assigned topic Seldom use the basic materials in the course Poor written essay

### Individual Written Assignment – English Writing Skills

Grade	Criteria and Standards
A to A+	<ul style="list-style-type: none"> <li>•Excellent writing style and vocabulary</li> <li>•Excellent sentence structures</li> <li>•No or very few grammatical and spelling mistakes</li> <li>•Very professional format and presentation *</li> </ul>
B to B+	<ul style="list-style-type: none"> <li>•Good writing style and vocabulary</li> <li>•Good sentence structures</li> <li>•Few grammatical and spelling mistakes</li> <li>•Professional format and presentation *</li> </ul>
C to C+	<ul style="list-style-type: none"> <li>•Adequate writing style and vocabulary</li> <li>•Acceptable sentence structures</li> <li>•Several grammatical and spelling mistakes</li> <li>•Acceptable format and presentation *</li> </ul>
D to D+	<ul style="list-style-type: none"> <li>•Barely satisfactory writing style and vocabulary</li> <li>•Barely acceptable sentence structures</li> <li>•Some obvious grammatical and spelling mistakes</li> <li>•Barely satisfactory format and presentation *</li> </ul>
F	<ul style="list-style-type: none"> <li>•Poor writing style and vocabulary</li> <li>•Inappropriate sentence structures</li> <li>•Many grammatical and spelling mistakes</li> <li>•Poor format and presentation *</li> </ul>

\* Format and presentation: Consistency and coherence in the overall structure and layout

### (iii) Midterm Test / Final Examination

Grade	Criteria and Standards
A to A+	Achieve a standard of excellent performance in the test / examination with extended ideas such as element of own voice and opinion, originality, recommending and reflecting
B to B+	Achieve a standard of good performance in the test / examination with good understanding such as a wide range and diversity of materials beyond those provided in the course, proper referencing, necessary analysis and application
C to C+	Meet a standard of acceptable performance in the test / examination with application of materials and without major errors of understanding
D to D+	Demonstrate a standard of marginally acceptable performance in the test / examination with some errors of understanding
F	Fail to meet a minimum standard of passing the test / examination with major errors of understanding or omission of explanation