

Course Title	: Corporate Finance
Course Code	: FIN2200
No. of Credits/Term	: 3
Mode of Tuition	: Sectional Approach
Teaching Hours	: 42 hours (3 hours per week)
Category in Major Programme	: Stream Required - Finance Stream
Prerequisite	: BUS201/BUS2201 Financial Management

Brief Course Description

Building on core Financial Management course, this course further elaborates the theory and practice of corporate finance. The topics addressed in this course include the concept 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 corporate restructuring.

Learning Outcomes

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

1. Estimate the cost of capital for the whole firm, individual divisions as well as the specific projects with advanced techniques such as the marginal cost of capital (MCC) schedule
2. Solve capital budgeting problems by risk-adjusted discount rate approach and certainty equivalent approach
3. Explain and evaluate the Modigliani and Miller (MM) capital structure model (with and without taxes) and the Miller model
4. Describe the impact of financial distress, agency costs and asymmetric information on capital structure
5. Explain dividend theories such as the residual theory of dividends and the Miller and Modigliani's irrelevance argument
6. Identify other factors that influence dividend policy

7. Apply the principles of working capital management
8. Describe the theories and practice of corporate restructuring such as mergers, acquisitions, leveraged buyouts (LBOs), divestitures and spin-offs.

Measurement of Learning Outcomes

1. The midterm and final exam consist of largely open-end questions and workout problems while some objective questions may also be used
2. Open-end questions assess students' comprehension of principles and application of theories.
3. Workout problems measure students' mastery of financial problem-solving techniques and skills.
4. Objective questions gauge students' recognition of basic terms and skills.

Indicative Content

Review of Basic Concepts

Goals of the firm and the role of the financial manager within the organisation
Ethics and firm value
Discounted cash flow analysis
Valuation of securities.
Risk and return.

Cost of Capital

Cost of debt, cost of preferred stock, cost of common equity and retained earnings
Weighted average cost of capital (WACC)
Divisional and project-specific required rates of return
The marginal cost of capital (MCC) schedule and breaks/jumps in the MCC schedule

Risk and Capital Budgeting

Review of basic capital budgeting decision methods
Risk-adjusted discount rate approach and certainty equivalent approach

Capital Structure Decisions

The development of capital structure theory
The Modigliani and Miller (MM) Model with and without taxes
The Miller Model

Criticisms of the MM and Miller Models

The impact of financial distress, agency costs and asymmetric information

Dividend Policy

Dividend theories such as the Residual Theory of Dividends

Arguments for and against the relevance of dividend policy

Miller and Modigliani's Irrelevance Argument

Other factors that influence dividend policy

Working Capital Management

Principles of working capital management

Cash and marketable securities management

Short-term financing

Corporate Restructuring

Mergers and acquisitions

Leveraged buyouts (LBOs)

Divestitures and spin-offs

Other forms of restructuring

Teaching Method

Students are strongly recommended to participate in class discussion related to the course. They are required to read assignments and do assigned homework before coming to class.

Assessment

Important Note: Students shall be aware of the University regulations about dishonest practice in course work and the possible consequences as stipulated in the Regulations Governing University Examinations.

Continuous Assessment: Term Project 15%

This team-based term-based project requires students to research on an assigned topic in corporate finance. Students will report their findings in the form of class presentation and written report.

Continuous Assessment: Two Tests 35%

Tests will use computational 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 Textbook

Corporate Finance by Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, Joseph Lim, Ruth Tan, and Helen Wong, McGraw-Hill Education (Asia), latest edition.

Supplementary Readings

Stephen A. Ross, Randolph W. Westerfield, Jeffrey F. Jaffe and Bradford D. Jordan, Modern Finance Management, latest edition, McGraw-Hill.

For an alternative and in-depth presentation:

Brealey, R. A. & S. C. Myers, *Principles of Corporate Finance*, 7th ed., McGraw-Hill, 2003.

For a review of basic concepts and techniques:

Eugene F. Brigham and Michael C. Ehrhardt, *Financial Management: Theory and Practice*, 11th ed., Thomson/South-Western 2005

Journal

Euromoney

Asian Wall Street Journal

Asian Finance

Financial Management