

THE CHINESE UNIVERSITY OF HONG KONG
FINA2310
FUNDAMENTALS OF BUSINESS FINANCE
FALL 2021

Time and Location:

Thursday 2:30 - 5:15 PM, SB LT2

Instructor: Professor Chen (Alison) YAO

CUHK Business School

Email: chenyao@cuhk.edu.hk

Office Hours: Friday 2:30 - 4:30 PM

Office Location: CYT Room 1252

Teaching Assistant: Huang Huang

Ph.D. Student in Finance

CUHK Business School

Email: 1155170442@link.cuhk.edu.hk

Office Hours: Monday 2:30 - 4:30 PM

Office Location: CYT Room 733

INTRODUCTION

This module introduces you to the key concepts of business finance in a way that builds sound intuition from the outset, without sacrificing rigor. It prepares the foundations for the more advanced study of finance by encouraging you to develop a critical understanding of the main theories and models (and the assumptions that underpin them) of financial management. This module aims to provide you with the skills and tools that are necessary to critically evaluate these different angles, ultimately enabling you to reach your own conclusion based on all information available.

COURSE MATERIALS

Textbook: Fundamentals of Corporate Finance, by Stephen A. Ross, Randolph W. Westerfield, Bradford D. Jordan. McGraw-Hill Education, Twelfth Edition. ISBN-13: 978-1-260-09190-8.

Other materials, including lecture notes, will be made available to participants in the week preceding the relevant session of the module.

Financial Calculator: The recommended calculator for the course is Texas Instruments BA II Plus (Professional) Financial Calculator. Purchase of the financial calculator is VOLUNTARY.

ASSESSMENT

Homework	15%
Midterm	30%
Final Exam	50%
Class Participation	5%

There will be two group-based assignments during the course. They consist of a mix of conceptual and analytical exercises designed to help you think about and understand the course material. You may form a group of up to 4 students. All assignment answers must be submitted by the due date and time. Late submissions will be penalized. Mid-term and final exams will test your understanding and mastery of the course material.

Academic Integrity: Some of the assignments in this class are group work. However, you *may not share solutions* with non-group members. "Sharing solutions" includes letting people have or see a copy of your spreadsheets, memoranda, or written solutions. Also, you may not obtain assistance from people who are not enrolled in the class. It is expected that all students enrolled in this course will behave in an ethical and professional manner. Cheating, plagiarism, or other violations of academic integrity will not be tolerated.

You are required to attend both the midterm and the final exam. Make sure to arrange your travel plans accordingly. Failure to participate without a valid reason will result in a mark of zero. If you must miss either test or exam for, say, medical or other reasons beyond your control, inform me as early as possible. Provide evidence (e.g., doctor's note) if possible.

EXAMINATION TIMETABLE

EXAM	DATE
Midterm	Oct 21
Final Exam	Dec 2

CLASS SCHEDULE

A tentative class schedule is shown below. This schedule is subject to change as the semester progresses.

LECTURE	TOPIC	READINGS
Lecture 1	Introduction	Chapter 1
Lecture 2	Financial Statement; Time Value of Money I	Chapter 2,5
Lecture 3	Time Value of Money II	Chapter 6
Lecture 4	Bond Valuation	Chapter 7
Lecture 5	Stock Valuation	Chapter 8
Lecture 6	Dividend Growth; Capital Budgeting	Chapter 9
Lecture 7	Risk and Return	Chapter 12,13
Lecture 8	Diversification and Security Market Line	Chapter 12,13
Lecture 9	Mispricing and Efficient Market Hypothesis; Financial Leverage	Chapter 13,16
Lecture 10	Cost of Capital; Class Review	Chapter 14

FREQUENTLY ASKED QUESTIONS

Q: What happens if I miss the midterm?

A: If you miss the midterm due to valid¹ (e.g., medical or similar) reasons, the weight of the midterm will be carried forward to the final exam (i.e., the final exam will count 80% of course mark). In all other cases (unexplained test absence), a mark of zero is automatically recorded for the test.

Q: What happens if I miss the final exam?

A: If you miss the final exam due to valid (see footnote 1) reasons, you will be given a chance to sit a (similar but, of course, not identical) exam. Unexplained absence from the exam will result in a mark of zero.

Q: I've heard (from previous cohorts?) that FINA2310 is really tough. Is that true?

A: Yes, and no. The material is challenging, and it has to be to make it worth the ink on your transcript. When you have completed this module, employers out there expect you to possess certain skills and knowledge, and it is our task (when I say “our,” that includes the students: it must be a joint effort) to ensure that these expectations are met. We give you all you need to succeed in this course, and we are all here to help if you have questions. If you put in the effort, you can (and probably will) do well on this course. So, the conclusion is: yes, it is tough; we do not give top grades away for free. But it is fair, and **if you work hard, you will succeed!**

SOME (HOPEFULLY) USEFUL ADVICE

A word about mathematics: Finance is a quantitative subject. We will not be able to do this without a little bit of mathematics. However, we will do our best to keep the level of mathematical complexity to a minimum and explain new concepts from first principles. If your memory of high school mathematics is a little rusty, you might want to pick up an elementary textbook and remind yourself of such concepts as

- Basic calculus (addition, multiplication, percentages, functions in one variable)
- Basic statistics (expected value, variance, and covariance, correlation)

Finance is not a “spectator sport”! Throughout this course, we will discuss some rather complex topics. Just listening to the lectures and reading the textbook will not be enough to achieve mastery of the concepts covered. To put it differently, it is impossible to learn how to ride a bicycle by merely watching someone else do it; only doing it yourself (which includes “falling off” a few times, dusting yourself off and trying again) will make you proficient. In other words, to succeed

¹ What constitutes a “valid” reason for absence from an examination is determined in accordance with the University’s and the School’s rules and regulations, based on any evidence provided (where available).

in this module, you will need to practice (practice, practice, ...), applying what you've learned in the lectures to concrete problems. So, my advice is:

Make sure to **keep on top of the material at all times**; do not wait until one week before the exam (by which time it will be too late). Revise what you have learned every week, identify any gaps in your understanding, and try to fix such gaps.

If anything is unclear, **do not hesitate to ask**. We (instructor and teaching assistant) are here to help. No matter how “stupid” you think your question is, it is likely that many people in the class had the same question but did not dare to ask.

On the other hand, **use the available resources efficiently**. It may sometimes seem easier to ask the lecturer instead of consulting the notes or the textbook, but this may waste valuable lecture time that could be used more effectively.

Use the assignment problem sets for practice. **Make your best effort to solve all problems**; do not wait for your group members to give the solutions. “Doing it yourself” is the best way of learning.

Exploit the diversity in the skills of the student cohort. Work in groups, share your insights with others, and be prepared to learn from them. You do not compete with one another; your only common “enemy” is the contents of the course.

Finally, make sure to **check into Blackboard on a regular basis**. I will post any additional reading materials, announcements about the course, and any other important information on Blackboard.

CODE OF CONDUCT

Your teaching faculty will make the best effort to deliver a module of the highest standard and to create an enjoyable and productive learning experience. Below are a few points to lay down the ground rules:

- Make every effort to **be on time for classes**. If you must arrive late for reasons beyond your control, take a seat in the back of the lecture theatre. Do not walk right down to the front row, since this will interrupt the flow of the lecture and distract your fellow students.
- Coming to class is a commitment; **do not leave half-way through a lecture**. If you are not sure if you will want to stay, don't come. If you know in advance that you will have to

leave before the end of the session, let your teacher know at the start of the session, take a seat in the back, and leave quietly when you have to.

- Try to **keep the level of noise to a minimum** during classes. It is unfair to the people around you to prevent them from following the lectures.
- Make sure you **switch off your mobile phone** in class or at least set it to the silent alert. If you must answer your phone during a lecture, please leave the room first.

YOUR INSTRUCTOR

Prof. Chen (Alison) Yao is an Associate Professor in the Department of Finance at The Chinese University of Hong Kong (CUHK) Business School. Her primary research interests are empirical asset pricing, market microstructure, and high-frequency trading. Her work on odd-lot trades has a wide policy impact which leads to changes in the US trade reporting rules. Her researches have been published in the *Journal of Finance*, *Review of Financial Studies*, and *Journal of Financial Economics*. Before joining CUHK, she was an Assistant Professor of Finance at Warwick Business School in the United Kingdom from 2013 to 2017. Prof. Yao holds a Ph.D. in Finance from the University of Illinois at Urbana-Champaign. She received her BS in Mathematics with Summa Cum Laude from Tulane University in the United States.