

<b>Course Title</b>	:	Corporate Finance
<b>Course Code</b>	:	FIN2200
<b>Recommended Study Year</b>	:	2 or 3
<b>No. of Credits/Term</b>	:	3
<b>Mode of Tuition</b>	:	Sectional Approach
<b>Class Contact Hours</b>	:	3 hours per week
<b>Category in Major Programme</b>	:	Stream Required - Finance Stream
<b>Prerequisite</b>	:	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.

### **Aims**

Students taking this course should expect to learn the knowledge of corporate finance. This course focuses on financial decision making in the modern corporation.

### **Learning Outcomes (LOs)**

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

1. Estimate the cost of capital for the whole firm and solve capital budgeting problems.
2. Explain and evaluate the Modigliani and Miller (MM) capital structure model (with and without taxes) and the Miller model as well as describe the impact of financial distress and other factors on capital structure.
3. Explain dividend theories such as Miller and Modigliani's irrelevance argument and identify other factors that influence dividend policy.
4. Apply the principles of working capital management.
5. Describe the theories and practice of corporate restructuring such as mergers and acquisitions.

### **Indicative Contents**

#### Review of Basic Concepts

Goals of the firm and the role of the financial manager within the organisation  
Ethics, agency problem, and firm value

#### Cost of Capital

Cost of debt, cost of preferred stock, and cost of common equity Weighted average cost of capital

#### Risk and Capital Budgeting

Review of basic capital budgeting decision methods  
Risk-adjusted discount rate 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  
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 management  
Short-term financing

#### Corporate Restructuring

Mergers and acquisitions  
Leveraged buyouts  
Other forms of restructuring

### **Teaching Method**

Class activities will include lectures and class discussions. Concepts and theories will be delivered and reinforced during class session. 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.

### **Measurement of Learning Outcomes**

1. The Final Examination consists of largely analytical conceptual questions and workout problems while the two Tests are set to assess students' comprehension of basic concepts, principles and application of theories as well as their mastery of financial problem-solving techniques and skills. (LO1) (LO2) (LO3) (LO4) (LO5)
2. Group Project evaluates students' ability to integrate the knowledge learnt in the course and apply it to analyse real life situation. (LO1), (LO2), (LO3), (LO4), or (LO5)

### **Assessment**

Continuous Assessment: Group Project 15%

This team-based project requires students to research on an assigned topic or to do a case study 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 conceptual and computational questions (using mainly objective tests) to test students' understanding of theories and concepts and mastery of basic skills and tools commonly used in solving financial problems.

Examination: Final Examination 50%

Final examination will rely more heavily on analytical conceptual questions and workout problems to assess students' comprehension of principles and application of theories as well as students' financial problem-solving skills.

### **Required/Essential Reading**

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

### **Recommended/Supplementary Readings**

Richard Brealey, Stewart C. Myers and Franklin Allen, *Principles of Corporate Finance*, 12<sup>th</sup> Edition, McGraw-Hill, 2017.

Eugene F. Brigham and Michael C. Ehrhardt, *Financial Management: Theory and Practice*, 15<sup>th</sup> Edition, Cengage Learning, 2017.

### **Recommended Financial Newspapers**

*The Financial Times*

*The Wall Street Journal*

**Important Notes**

- (1) Students are expected to spend a total of 9 hours (i.e. 3 hours of class contact and 6 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/>.