



FIN 521

Corporate Finance

F2, F3 & Intl Fin Sessions

Module II, 2023-2024

Course Information

Instructor: LI Di

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Office Hour: Friday 19:00 – 20:30 or by appointment

Teaching Assistant: TBA

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TA Office Hour:

Classes:

Lectures: Tuesday & Friday, 13:30-15:20 (Session 1), 15:30-17:20 (Session 2)

Venue: TBA

1. Course Description

1.1 Context

Course overview:

This course focuses on “valuation,” i.e., understanding the value implications of investment and financing decisions that firms make. By the end of this course, you should be able to:

- Evaluate corporate projects and make decisions based on financial data.
- Analyze a firm’s financial statements and value the firm.
- Understand how investment and financing decisions impact the value of a firm.
- Develop complex spreadsheet models in Excel.

We will build on the time value of money concepts and the risk and return relation that you have learned in earlier finance courses. However, this course is much more detailed and practical. As you will see, a significant component of the grade comes from real-life projects, which require complex spreadsheet modelling in Excel. Even the in-class exercises and exams will focus on applications of concepts to solving real-life problems faced by businesses.

The course is a mix of lectures and discussion. Lecture notes will be distributed before class. Students are expected to come to class prepared for active participation. It is your own responsibility to get informed of important developments pertaining to the course. It is important to check email messages regularly for class announcements. We do problems in class, so bring a calculator. A financial calculator is recommended but a basic scientific calculator that calculates powers is fine too. Solutions to in-class exercises will not be distributed or posted.

Prerequisites:

This course presumes that students have taken basic courses in accounting, economics, finance, and statistics. Students need to have completed the following course: “Financial Economics.” We will also make extensive use of some accounting concepts. Therefore, it is a good time to brush

up on your accounting knowledge, specifically, the organization of balance sheet and income statement.

1.2 Textbooks and Reading Materials

Lecture notes, assignments, and other useful materials will be distributed via the PHBS email system.

Textbooks:

Corporate Finance, by Ross, Westerfield, Jaffe, and Jordan. McGraw Hill, 11th ed. (RWJJ)

Excel Modeling and Estimation in Corporate Finance, by Holden. Prentice Hall, 3rd ed. (HD)

Earlier editions of the textbooks can be used, but you are responsible to make up the differences.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment (YES with details or NO)
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	√
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	√
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	√
	2.2. Students will be able to apply leadership theories and related skills.	√
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	√
	3.2. Our students will practice ethics in the duration of the program.	√
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	√
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	√
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	√
	5.3. Our students will demonstrate competency in critical thinking.	√

2.3 Assessment/Grading Details

The course grade will be determined by the following scheme:

Midterm exam	40%
Projects	20%
Presentation of Project	10%
Assignments	20%
Class attendance & participation	10%
Total	100%

2.5 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Important Class Policies

3.1 Class Attendance and Absence Allowance

Class attendance is required. However, students are granted TWO discretionary absences for reasons such as job interview and emergencies. Additional absences must be approved by the instructor in advance and otherwise will be subject to penalty. Students without unauthorized absences will earn five points for class attendance. Each unauthorized absence will result in a deduction of two points from the class attendance points and the deduction continues from other parts of the course grade if the attendance points have been used up. Students with five or more unauthorized absences will be automatically dropped from the class. The application for additional absences must be documented (e.g., doctor's notes), and the approval is at the instructor's discretion. Students who miss a class are responsible themselves to make up the missed materials and to get in-class announcements from peer classmates.

It is important to be punctual and students should arrive on time. At the beginning of the class, the TA will administer class check-in. Being late for the check-in will be treated as an unauthorized absence. No make-up for class check-in will be allowed.

Students must remain in the classroom throughout the class time. Early exits must be approved by the instructor. The instructor will randomly re-check attendance. An unauthorized early exit will be treated as an unauthorized absence.

3.2 Team Activities and Evaluation

There are two projects to be completed in teams. At the beginning of the module, students will be assigned into different teams (self-selection plus random grouping). Each team will have five students (or fewer). Every student must contribute to the team works fairly and sufficiently. To prevent free riding, if a student feels that some peer teammates fail to contribute enough, he/she can submit a claim to the instructor. The instructor will investigate the claim and adjust the teamwork grades of the accused students based on the severity of the problem if the accusation is affirmed.

3.3 Class Participation and Cold-Call Policy

Students should actively participate in class activities such as Q&A, problem solving, discussion, and presentation, etc. To motivate participation, the instructor will make cold calls randomly. A student who is called but fails to meaningfully participate will be penalized with a reduction of one point per occurrence from the grade. Volunteers are highly encouraged and will be awarded (up to five points for active class participation).

3.5 Others

Phones must be turned off or muted during the class. Students should avoid chats with peer classmates unless the instructor calls for a discussion.

4. How to Excel

This course is very intensive. A student who wishes to excel in the class should follow the tips provided below:

- A. Review class materials from earlier prerequisite courses such as economics, accounting, finance, and statistics.
- B. Preview class notes before arriving in the classroom. Normally, class notes will be distributed one day prior to the class.
- C. Be concentrated and actively participate in activities (e.g., problem solving, discussion, and presentations) in class.
- D. Do the in-class examples and assignment questions. You learn little until you do it.
- E. DO NOT FREERIDE others. A great portion of the course grade comes from teamwork. Therefore, it is crucial to contribute fairly and sufficiently to your team. If a student is complained about and deemed free riding, his/her grades for team works will be adjusted in accordance with the severity of the problem.
- F. Ask questions whenever they arise. Take advantage of the office hours offered by the instructor and the teaching assistant. Do not wait and accumulate the problems.

5. Topics, Teaching and Assessment Schedule

The following course outline is an approximate schedule of topics to be covered. Please note that it is subject to change.

Date	Topics	Notes
Nov. 14, Tuesday Nov. 17, Friday	Course Introduction Review of relevant materials Financial statements Time value of money Inflation	RWJJ Chapters 1, 2, 4
Nov. 21, Tuesday	Investment decision rules NPV Payback period IRR Others	RWJJ Chapters 5
Nov. 24, Friday Nov. 28, Tuesday Dec. 1, Friday	Incremental cash flow Accounting cash flow vs. free cash flow Operating cash flow Projection of cash flows Reconcile pro-forma financial statements	RWJJ Chapters 3, 6 HD Chapters 15, 16
Dec. 5, Tuesday	Comparing projects Projects of equal life Equivalent annual cost Setting the bid price	RWJJ Chapter 6
Dec. 8, Friday	Project analysis under uncertainty Scenario analysis Sensitivity analysis Spreadsheet modelling Explanation of Projects	RWJJ Chapter 7 HD Chapters 12, 13
Dec. 12, Tuesday Dec. 15, Friday	Cost of capital Capital structure I: Perfect financial market WACC with and without leverage Divisional WACC Capital structure II: Imperfect market WACC with taxes WACC with bankruptcy costs	RWJJ Chapters 10, 11, 13, 14, 16, 17 Assignment 1 due on Dec. 12 Project 1 due on Dec. 15
Dec. 19, Tuesday	Major frictions in financial market Information asymmetry Agency cost Capital structure theories	RWJJ Chapters 15, 16, 17

Dec. 22, Friday	Raising long-term capital IPOs Rights Corporate bonds	RWJJ Chapter 20
Dec. 26, Tuesday	Payout policy Types of dividends Cash dividend Stock dividend Repurchase	RWJJ Chapter 19
Dec. 29, Friday	Mergers and acquisitions Forms of acquisitions Synergy and coinsurance effects Financing acquisitions Empirical evidence	RWJJ Chapter 29 Assignment 2 due
Jan. 2, Tuesday	Midterm Exam	Covers lectures up to Dec. 26
Jan. 5, Friday	Introduction to VC and PE Fund structure Geography of VC/PE Financial contracting Exit strategy	
Jan. 9, Tuesday Jan. 12, Friday	Group presentations	Project 2 due on Jan. 9