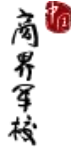




**PHBS**  
北京大学汇丰商学院



# FIN530 (F5) Corporate Finance 3<sup>rd</sup> Module, 2022-2023

## Course Information

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**Instructor: DuckKi (John) CHO**

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Office Hour: Tuesdays, Fridays 13:30-14:20; Wednesdays 9:30-10:20 (or by appointment via email)

**Teaching Assistant: TBA**

Phone:

Email:

**Classes:**

Lectures: Tuesdays, Fridays 10:30-12:20

Venue: PHBS Building, Room TBA

**Course Website:**

Search "[FIN530(F5)] Corporate Finance (2022-2023 M3)" from PHBS Course Management System (CMS): [cms.phbs.pku.edu.cn](https://cms.phbs.pku.edu.cn). The enrolment code will be announced in class.

All students must register into CMS because the course materials will be distributed through the course website.

Note: Please enter your name in ENGLISH when you register on CMS because the system does not recognize Chinese characters.

## 1. Course Description

### 1.1 Context

**Course overview:**

In the first part of this course, we will focus on the practical aspects of corporate finance, i.e., "valuation": understanding the value implications of investment and financing decisions that firms make. We will build on the time value of money concepts and risk and return concepts that you have learned in earlier finance courses. However, this class is much more detailed and practical. As you will see, a large component of the grade comes from real-life projects, which require complex spreadsheet modeling in Excel. The in-class exercises and exams will also handle applications of concepts to solving real-life problems faced by businesses. We will also make extensive use of some of the accounting concepts. So, it is a good idea to brush up on your accounting concepts, specifically, the organization of the balance sheet and the income statement. In the second part of this course, you will have an opportunity to get exposed to academic papers that emphasizes the theoretical foundations of corporate finance. This exercise will enable you to bridge the gap between theoretical and practical aspects of corporate finance.

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 the firm.
- Develop complex spreadsheet models in Excel.
- Understand key theoretical papers and corresponding solution techniques.

The course is a mix of lectures and discussions. Lecture notes must be downloaded from the course website before class. I expect students to come to class prepared for active participation. Class attendance is strongly encouraged and is required during group presentations. To make the most efficient use of limited class time, students who miss a class or are late are responsible for getting notes, assignments, and announcements from their classmates. It is your responsibility to keep yourself informed of important developments pertaining to the course. Keeping your University email account updated is important. We do problems in class, so bring a calculator. A basic financial calculator is best, though a good basic scientific calculator that does powers is fine.

Please remember to turn off your cell phone before class.

**Prerequisites:** None

## **1.2 Textbooks and Reading Materials**

Lecture notes, assignments, academic articles, and other helpful information will be posted on the course web page.

**Required Text:** *Corporate Finance* by Ross, Westerfield, Jaffe, and Jordan, McGraw-Hill Inc., 11<sup>th</sup> Edition

**Reference Text:** *Financial Markets & Corporate Strategy* by Grinblatt and Titman, McGraw-Hill/Irwin, 2<sup>nd</sup> Edition

**Reference Text:** *The Theory of Corporate Finance* by Tirole, Princeton University Press.

## **2. Learning Outcomes**

### **2.1 Intended Learning Outcomes**

<b>Learning Goals</b>	<b>Objectives</b>	<b>Assessment (YES with details or NO)</b>
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	YES (final project)
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	YES (final project)
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.	YES (final project)
	2.2. Students will be able to apply leadership theories and related skills.	YES (final project)
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.	NO
	3.2. Our students will practice ethics in the duration of the program.	NO
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	NO
5. Our graduates will be	5.1. Our students will have a good	YES (lectures,

skilled in problem-solving and critical thinking.	understanding of fundamental theories in their fields.	exams, quizzes)
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	YES (lectures, exams, quizzes, final project)
	5.3. Our students will demonstrate competency in critical thinking.	YES (lectures, exams, quizzes, final project)

## **2.2 Course specific objectives**

## **2.3 Assessment/Grading Details**

<b>Assessment task</b>	<b>Weighting</b>
Mid-term Exam	130
Final Project* Write-up	30
Final Project Presentation	40
Attendance/Class Participation	10
"Pop" Quizzes	30
Total	250

*\*Details will be announced later.*

## **2.4 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's work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconduct, 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 an 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 purposes.

Where the 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 on plagiarism, please refer to *PHBS Student Handbook*.

### 3. Topics, Teaching and Assessment Schedule

Weeks	Topics ( <i>tentative</i> )
1-2	<p><b>Introduction of corporate finance</b>  Syllabus: administrative information  What is corporate finance?  The goal of a financial manager</p> <p><b>Review of financial tools</b>  Valuation basics  Time value of money, perpetuity, annuity (self-study)  Inflation, constant dollar adjustment</p> <p><u>Reading List</u>  Hart and Zingales, "Companies Should Maximize Shareholder Welfare Not Market Value", 2017, Journal of Law, Finance, and Accounting</p>
	<p><b>Cash flows</b>  Accrual accounting  Free cash flow vs. net income  Examples (handouts)</p> <p><b>Capital budgeting</b>  Incremental project cash flow  Net present value, payback period, internal rate of return</p>
2-3	<p><b>Comparing projects</b>  Projects of equal life  Equivalent annual cost  Setting the bid price, break-even analysis</p> <p><b>Project analysis</b>  Managerial options, the value of options  Scenario analysis  Sensitivity analysis  Simulation analysis</p>
	<p><b>Projecting sales growth</b>  Trends in sales growth  Relation to industry  Regression analysis / time-series analysis / theoretical (accounting identity) analysis</p> <p><b>Financial statement analysis</b>  Ratio analysis to forecast financial statement</p>
3-4	<p><b>Financial statement analysis</b>  Dupont Identity (examples)  Operating Leverage</p> <p><b>Financial modeling</b>  Building proformas</p>

	<p>Relation between financial statements</p> <p><b>Discounted cash flow valuation</b> Sequential Valuation</p> <p><b>Multiples valuation</b> Definition of Market Ratios Price-Earnings Ratio</p>
4-5	<p><b>Cost of capital</b> WACC without and with taxes Divisional WACC</p> <p><b>Capital structure (I): Perfect market</b> Proposition I: WACC Proposition II: Cost of equity Business and financial risk Unlevering beta / levering beta</p> <p><u>Reading List</u> Modigliani and Miller, "The Cost of Capital, Corporation Finance, and the Theory of Investment", 1958, American Economic Review Modigliani and Miller, "Corporate Income Taxes and the Cost of Capital: A Correction", 1963, American Economic Review Berger and Ofek, "Diversification's Effect on Firm Value", 1995, Journal of Financial Economics</p> <p><b>Capital structure (II): Imperfect market</b> WACC with taxes WACC with bankruptcy costs Incorporating changes in leverage Value of levered firm Dollar gain from the tax benefit Dollar cost due to bankruptcy</p> <p><b>Capital structure (III): The real world</b> Agency costs: Debtholders and shareholders Agency costs: Managers and shareholders</p> <p><u>Reading List</u> Jensen and Meckling, "Theory of the Firm: Managerial Behavior, Agency Cost, and Capital Structure", 1976, Journal of Financial Economics</p>
5-6	<p><b>Agency cost and information asymmetry</b> Agency costs Equity holder vs. manager Debt holder vs. equity holder Large shareholders vs. minority shareholders ("free-rider") Convertibles Capital structure</p> <p><u>Reading List</u> Jensen and Meckling, "Theory of the Firm: Managerial Behavior, Agency Cost, and Capital Structure", 1976, Journal of Financial Economics Myers and Majluf, "Corporate Financing and Investment Decisions When Firms</p>

	<p>Have Information that Investors Do Not Have", 1984, Journal of Financial Economics  Green, "Investment Incentives, Debt and Warrants", 1984, Journal of Financial Economics  Shleifer and Vishny, "Large Shareholders and Corporate Control", 1986, Journal of Political Economy</p>
	<p><b>Raising capital</b>  IPOs  Private equity market  Rights  Corporate bond  Strategic use of debt financing in the face of union threat</p> <p><u>Reading List</u>  Rock, "Why New Issues are Underpriced?", 1986, Journal of Financial Economics  Bronars and Deere, "The Threat of Unionization, the Use of Debt, and the Preservation of Shareholder Wealth", 1991, Quarterly Journal of Economics</p>
<b>6-7</b>	<p><b>Payout policy (I)</b>  Types of dividends  Irrelevancy of dividends  Taxes  Stock repurchases</p>
	<p><b>Payout policy (II)</b>  The real world  Dividend clienteles  Signaling under asymmetric information</p> <p><u>Reading List</u>  Miller and Rock, "Dividend Policy Under Asymmetric Information", 1985, Journal of Finance</p>
<b>7-8</b>	<p><b>In-class Midterm Exam (Apr 7): 10:30~12:50 (if possible)</b></p> <p><b>Endogeneity issues in empirical research</b> (if time permits)</p>
<b>8-9</b>	<p><b>Group presentations (April 19, Wednesday 8:30-12:20 @ the same room)</b>  Note that <u>lectures on April 11 and 14 (Week 8) are rescheduled</u> and merged into a 4-hour class on April 19 (Wednesday). <b>Mandatory attendance day</b></p> <p><b>Final project DUE (April 19, by 23:59)</b></p>

## 4. Miscellaneous

I strongly encourage you to ask questions or make comments during lectures and student presentations. Your participation will enrich our learning environment, and you will benefit a lot from it. If you have special needs to reach me outside the lectures or regular office hours, you may email me. I will try to respond to your email in two business days. Please send me a reminder email if you do not get my response within two business days. When you email me, please prefix the course code [FIN530(F5)] to the subject header for better visibility.