



# FIN 521

## Corporate Finance

### Session: S3

## Module II, 2019-2020

### Course Information

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Office Hour: Tuesday & Friday 14:00-15:00 (or by appointment)

#### Teaching Assistant: TBA

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TA Office Hour: TBA

#### Classes:

Lectures: Tuesday & Friday, 15:30-17:20

Venue: PHBS Room 313

#### Course Website:

PHBS Course Management System (CMS): [cms.phbs.pku.edu.cn](http://cms.phbs.pku.edu.cn). After you log in, search and enrol into the course "Corporate Finance-S3 (2019-20M2)" using the code "CF19M2S3". **All students must register** into CMS because the course assignments will be distributed and submitted 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:

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 modeling 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 and excel files must be downloaded from the course website 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 your university email account 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, and finance. 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 posted on the course web page.

### Textbooks:

*Corporate Finance*, by Ross, Westerfield, Jaffe, and Jordan. McGraw Hill, 11<sup>th</sup> ed. (RWJJ)

*Excel Modeling and Estimation in Corporate Finance*, by Holden. Prentice Hall, 3<sup>rd</sup> ed. (HD)

## 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:

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Mid-term exam	40%
Project 1	10%
Project 2	20%
Presentation of Project 2	10%
In-class team assignments	10%
Class participation	10%
Total	100%

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## 2.4 Important Class Policies

### A. 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. Each unauthorized absence will result in a deduction of two points from the class participation grade, and 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.

### B. Team Activities and Evaluation

There are two projects and a few in-class assignments that are to be completed in teams. At the beginning of the module, students will be randomly assigned into different teams. 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 teammate fails to contribute enough, he/she can submit a claim to the instructor. The instructor will examine the issue and adjust the teamwork grades of the accused student based on the severity of the problem.

## 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. 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. 15, Friday	Introduction Review of financial tools Valuation basics Time value of money Inflation Cash flows Effects of accrual accounting Free cash flow	RWJJ Chapters 1, 2, 4
Nov. 19, Tuesday	Cash flows: Examples Capital budgeting Incremental project cash flows Net present value and others	RWJJ Chapters 5, 6
Nov. 22, Friday	Comparing projects Projects of equal life Equivalent annual cost Setting the bid price Project analysis under uncertainty Scenario analysis Sensitivity analysis Spreadsheet modeling Explanation of Project 1	RWJJ Chapters 6, 7 HD Chapters 12, 13
Nov 26, Tuesday	Projecting sales growth Trends in sales growth Relation to industry Economic analysis: Regressions Financial statement analysis Ratio analysis Dupont Identity Operating leverage Reconcile pro-forma financial statements	RWJJ Chapter 3 HD Chapters 15, 16
Nov 29, Friday	Discounted cash flow valuation Sequential valuation Multiples valuation Definition of market ratios Pricing-earnings ratio Explanation of Project 2	RWJJ Chapter 4

Dec 3, Tuesday	<p>Cost of capital</p> <ul style="list-style-type: none"> <li>WACC without and with taxes</li> <li>Divisional WACC</li> </ul> <p>Capital structure I: Perfect market</p> <ul style="list-style-type: none"> <li>Proposition I: WACC</li> <li>Proposition II: Cost of equity</li> <li>Business and financial risk</li> <li>Unlevered beta</li> </ul>	RWJJ Chapters 13, 15, 16
Dec 4, Wednesday	<p>Capital structure II: Imperfect market</p> <ul style="list-style-type: none"> <li>WACC with taxes</li> <li>WACC with bankruptcy costs</li> <li>Incorporating changes in leverage</li> <li>Value of levered firm</li> <li>Dollar gain from tax benefit</li> <li>Dollar cost due to bankruptcy</li> </ul> <p>Capital structure III: The real world</p> <ul style="list-style-type: none"> <li>Agency costs: Lenders and shareholders</li> <li>Agency costs: Managers and shareholders</li> <li>Discuss capital structure puzzle</li> </ul>	<p>RWJJ Chapters 15, 16, 17</p> <p><b>Project 1 due</b></p> <p>To make up the Dec 6 class</p>
Dec 10, Tuesday	<p>Raising capital</p> <ul style="list-style-type: none"> <li>IPOs</li> <li>Private equity market</li> <li>Rights</li> <li>Corporate bonds</li> </ul>	RWJJ Chapter 20
Dec 13, Friday	<p>Case discussion:</p> <ul style="list-style-type: none"> <li>Airbus</li> <li>Marriott</li> </ul>	
Dec 17, Tuesday	<b>Midterm exam</b>	
Dec 18, Wednesday	<p>Mergers and acquisitions</p> <ul style="list-style-type: none"> <li>Forms of acquisitions</li> <li>Synergy and coinsurance effects</li> <li>Financing acquisitions</li> <li>Empirical evidence</li> </ul>	<p>RWJJ Chapter 29</p> <p>To make up the Jan 3 class</p>
Dec 20, Friday	<p>Case discussion:</p> <ul style="list-style-type: none"> <li>Tiffany</li> <li>Gucci</li> </ul>	

Dec 24, Tuesday	Payout policy Types of dividends Irrelevancy of dividends Taxes Stock repurchases Dividend clienteles Signalling	RWJJ Chapter 19
Dec 27, Friday	Agency cost and information asymmetry Debtholder-shareholder conflicts Manager-shareholder conflicts Convertibles Capital structure Payout policy	
Dec 31, Tuesday	Case discussion: Apple	
Jan 8, Wednesday	Introduction to VC and PE Fund structure Geography of VC/PE Financial contracting Exit strategy	<b>Project 2 due</b>  To make up the Jan 7 class
Jan 10, Friday	Group presentations	
Jan 14, Tuesday	Group presentations	