

<b>Subject Code</b>	AF5324
<b>Subject Title</b>	Theories and Models in Finance
<b>Credit Value</b>	3
<b>Level</b>	5
<b>Normal Duration</b>	One Semester
<b>Pre-requisite / Co-requisite/ Exclusion</b>	<p>(Recommended Background Knowledge: To register this subject, students should</p> <ul style="list-style-type: none"> <li>• have taken courses in investments and corporate finance (for example Investments (AF3316) and Business Finance (AF3313)) or equivalents</li> <li>• be familiar with basic statistical terms, such as mean, variance, covariance, and simple regression techniques</li> <li>• have good knowledge of using basic functions and commands in EXCEL.)</li> </ul>
<b>Role and Purposes</b>	This subject contributes to the achievement of the MSc in Accountancy Programme Outcomes by enabling students to acquire academic knowledge of investments and corporate finance. It will help students to build up analytic and modeling skills, and to apply the knowledge in real-world situations (Programme Outcome 3) by relating theoretical and practical aspect of investments and corporate finance.
<b>Subject Learning Outcomes</b>	<p>Upon completion of the subject, students will be able to:</p> <ol style="list-style-type: none"> <li>Understand the commonly-used financial theories and models;</li> <li>Use Excel to implement most of the models; and</li> <li>Apply the theories and models to real-world financial and investment problems.</li> </ol>
<b>Subject Synopsis/ Indicative Syllabus</b>	<p><b>Corporate Finance Theories and Models</b></p> <p>The Gordon Dividend Model; the “Supernormal Growth” and Gordon Model; Cost of Capital; and Financial Statement Modeling</p> <p><b>Portfolio Theory and Capital Asset Pricing Model</b></p> <p>Mean-Variance Portfolio Analysis; CAPM; the Black-Litterman Approach to Portfolio Optimization; Portfolio Insurance</p> <p><b>Theories and Models with Fixed Income Securities</b></p> <p>Duration; Immunization Strategies; and the Term Structure Modeling;</p> <p><b>Option Pricing Theory</b></p> <p>Applications of Option Pricing Models for valuations of Structured Securities, Patents and Resource Companies.</p> <p><b>Other topics</b></p>

	Event Studies; Modigliani and Miller model; Optimal dividend policy																																																						
<b>Teaching/Learning Methodology</b>	The three hours of lecture/seminar per week will be used flexibly by the lecturer for discussing the core principles and concepts of the subject and their applications with students and carrying out other learning activities with them. Students are expected to play an active role to interact with their lecturer and other classmates.																																																						
<b>Assessment Methods in Alignment with Intended Learning Outcomes</b>	<p>Assessment components include group projects, a midterm exam and a final exam. These assessment components require students to demonstrate their understanding of theories and, their ability to solve real problems using the Excel, and their ability to work together to solve real-world cases (Programme Outcome 3).</p> <table border="1" data-bbox="527 682 1433 1224"> <thead> <tr> <th rowspan="2">Specific assessment methods/tasks</th> <th rowspan="2">% weighting</th> <th colspan="6">Intended subject learning outcomes to be assessed (Please tick as appropriate)</th> </tr> <tr> <th>a</th> <th>b</th> <th>c</th> <th></th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>Participation</td> <td>10%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Group Project</td> <td>20%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Midterm Exam</td> <td>20%</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Final Exam</td> <td>50%</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>100 %</td> <td colspan="6"></td> </tr> </tbody> </table> <p>Explanation of the appropriateness of the assessment methods in assessing the intended learning outcomes:</p> <ol style="list-style-type: none"> <li>1. Participation – It is essential for students to attend lectures as the course is designed as “learning by playing”. Students are required to follow the lecturer to solve financial and investment problems using Excel during lectures.</li> <li>2. Group Project – Students can learn more effectively by sharing their views and experiences with each other, and apply the knowledge they have learned in class to real-world cases.</li> <li>3. Midterm and Final Exams - Students are required to analyze financial or investment issues and apply theories, models and Excel to provide solutions/explanations to these issues.</li> </ol> <p><b>Note: To pass this subject, students are required to obtain Grade D or above in BOTH the Continuous Assessment and Examination components. In addition, the specific requirements on individual</b></p>	Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)						a	b	c				Participation	10%	√	√	√				Group Project	20%	√	√	√				Midterm Exam	20%	√	√					Final Exam	50%	√	√					Total	100 %						
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	<b><i>assessment components discussed above could be adjusted based on the pedagogical needs of subject lecturers.</i></b>	
<b>Student Study Effort Expected</b>	Class contact:	
	▪ Lectures / Seminars	39 Hrs.
	Other student study effort:	
	▪ Depends on their backgrounds, on average students are expected to spend around 2 more hours for each contact hour for reading subject materials/textbook, doing discussion questions and assignments.	78 Hrs.
	Total student study effort	117 Hrs.
<b>Reading List and References</b>	<p><b>Required main textbook</b> Simon Benninga, <u>Financial Modeling</u>, Third Edition (The MIT Press)</p> <p><b>Additional text/reference books</b></p> <p>Bodie Z., Kane A. and Marcus A.J., <u>Essentials of Investments</u>, 8th Edition</p> <p>Ross, S. A., R. W. Westerfield, J.F. Jaffe, and B.D. Jordan, <u>Modern Financial Management</u>, 8th edition, McGraw-Hill Irwin, 2008.</p> <p><b>Advanced reference books</b></p> <p>Bodie Z., Kane A. and Marcus A.J., <u>Investments</u>, 8th Edition</p> <p>Copeland, T. E., Weston, J.F. and Shastri, K., <u>Financial Theory and Corporate Policy</u>, Fourth Edition</p> <p>Huang C.F. and Litzenberger R.H., <u>Foundations for Financial Economics</u></p> <p>Ingersoll, J. Jr., <u>Theory of Financial Decision Making</u></p>	