

Subject Code	AF5337
Subject Title	Corporate Finance and Policies
Credit Value	3
Level	5
Normal Duration	1-semester
Pre-requisite / Co-requisite/ Exclusion	None
Role and Purposes	This subject aims to equip students with the modern theories and practice of corporate finance. It contributes to the achievement of the MCG Programme Outcomes by developing students' ability to <u>think critically in resolving corporate finance issues</u> (Outcome 4), to <u>establish the linkage between financial policies and corporate governance</u> , and to <u>apply their understanding of financial concepts and models to company analysis</u> (Outcome 4).
Subject Learning Outcomes	On successfully completing this subject, students will be able to: <ul style="list-style-type: none"> (a) <u>demonstrate how corporate financial policies are related to corporate governance</u>; (b) <u>identify the sources of risk and assess its impact on corporate financial decisions</u>; and (c) <u>apply the corporate finance knowledge in financial decision making</u>.
Subject Synopsis/ Indicative Syllabus	<p>Goals of the Firm Corporate goals. Stakeholders in a company and agency problems. Market incentives for ethical behavior. Corporate governance and financial performance.</p> <p>Foundation of Corporation Finance Time value of money. Annuity and perpetuity. Valuation of bonds. Interest rate risk. Valuation of stocks. Dividend Growth Model.</p> <p>Capital Investment Decisions Capital budgeting criteria: Payback, NPV and IRR methods. Cash flow estimation. Projects with uneven lives. Real option.</p> <p>Risk and Return Trade-off Risk premium based on historical returns. Portfolio theory. Diversification benefit. Systematic risk and firm-specific risk. Capital Asset Pricing Model.</p> <p>Cost of Capital Weighted average cost of capital. Divisional cost of capital and pure play approach.</p> <p>Sources of Financing</p>

	<p>Long-term financing. Changing environment of capital markets. Initial public offerings. Rights offering.</p> <p>Capital Structure Effect of financial leverage. MM Theory. Optimal capital structure and trade-off model. Financial distress. Agency costs. Asymmetric information. Pecking Order theory.</p> <p>Dividend Policies Factors affecting dividend policies. Signalling effects. Share repurchases.</p> <p>Corporate Restructuring Types of mergers and acquisitions. Merger analysis. Defensive tactics. Empirical evidence on M&A.</p>																																																						
<p>Teaching/Learning Methodology</p>	<p>Key issues related to each topic are covered in lectures. Interpretation and application of concepts and techniques are discussed and elaborated. The lectures are supplemented with case studies, in the form of either assignments or in-class discussion. A group project and individual writing assignments are designed to provide students with hands-on experiences for company analysis.</p>																																																						
<p>Assessment Methods in Alignment with Subject Learning Outcomes</p>	<table border="1" data-bbox="486 922 1444 1503"> <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>Class Participation</td> <td>10%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Group Project report and presentation</td> <td>20%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Mid-term Test</td> <td>20%</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Final Examination</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> <p>Class Participation – Students are encouraged to ask questions and participate in class discussion.</p> <p>Group Project report and presentation – Students are required to perform an analysis of a company listed on the Hong Kong Exchange. The project covers three integrated areas: profitability analysis, corporate financial planning and diagnosing financial policy.</p> <p>Mid-term Test – 2 hour mid-term test with short questions and multiple choice questions are designed to cover the foundation of corporate finance.</p> <p>Final Examination – 3 hour final examination with short/long questions and cases are designed for students to analyze corporate finance issues and to apply corporate finance concepts and principles to solve real world</p>	Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)						a	b	c				Class Participation	10%	√	√	√				Group Project report and presentation	20%	√	√	√				Mid-term Test	20%	√	√	√				Final Examination	50%	√	√	√				Total	100%						
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	<p>financial management problems.</p> <p>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 assessment components discussed above could be adjusted based on the pedagogical needs of subject lecturers.</p>	
Student Study Effort Required	Class contact:	
	<ul style="list-style-type: none"> ▪ 13 weeks of 3 hours seminar each 	39 Hrs.
	Other student study effort:	
	<ul style="list-style-type: none"> ▪ Depends on their backgrounds, on average students are expected to spend around 2 more hours for each contact hour for reading subject materials/textbook, preparing tutorial participation and doing discussion questions and assignments. 	78 Hrs.
	Total student study effort	117 Hrs.
Reading List and References	<p>Berk, Jonathan, Peter DeMarzo and Jarrad Harford, <i>Fundamentals of Corporate Finance</i>, latest edition, Pearson.</p> <p>Stephen A. Ross, Randolph W. Westerfield, Jeffery F. Jaffe, Joseph Lim, Ruth Tan and Helen Wong, <i>Corporate Finance: Asia Global Edition</i>, latest edition, McGraw-Hill.</p> <p>Bruner, Robert F., <i>Case Studies in Finance: Managing for Corporate Value Creation</i>. latest edition, McGraw-Hill.</p>	