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| <b>Subject Code</b>                            | AF5312   |
| <b>Subject Title</b>                           | Principles of Corporate Finance  |
| <b>Credit Value</b>                            | 3  |
| <b>Level</b>                                   | 5  |
| <b>Normal Duration</b>                         | One Semester   |
| <b>Pre-requisite / Co-requisite/ Exclusion</b> | Pre-requisite: None<br>Exclusion: Financial Management (AF5318)<br>Finance for Executives (AF5327)<br>Corporate Financial Management (AF5331)  |
| <b>Role and Purposes</b>                       | This course introduces students to the foundation knowledge and techniques in corporate finance, as well as covering more specialised aspects of corporate finance on which other subjects can be built. This course will help students to identify real life corporate finance issues and explain the related observations or phenomena in terms of sound financial theories concepts (Outcome 1). Students are also able to apply the up-to-date corporate finance principles (Outcome 2) and see their impact on corporate policies and strategies (Outcome 3).   |
| <b>Subject Learning Outcomes</b>               | Upon successful completion of this course, students should be able to: <ul style="list-style-type: none"> <li>a. Understand the major tasks of corporate finance;</li> <li>b. Understand the role of financial markets and interest rate in corporate financing and how they should be incorporated in corporate financing decisions;</li> <li>c. Understand the importance of time value of money and its relevance to corporate financial decisions, and be able to apply the up-to-date knowledge acquired in the course to solve similar capital budgeting problems in other real case situations;</li> <li>d. Understand the return-risk relation and the CAPM;</li> <li>e. Understand issues of cost of capital, capital structure, and different methods of equity and debt financing.</li> </ul> |
| <b>Subject Synopsis/ Indicative Syllabus</b>   | <p><b>Key Concepts of Corporate Finance</b><br/>Corporate finance and the financial manager; goals of corporate management; agency problem, corporate governance and control of the corporation; value of the firm expressed as contingency claims; time value of money and present value.</p> <p><b>Valuation and Capital Budgeting</b><br/>Evaluation of capital investment decisions using the net present value rule; alternative rules for capital budgeting; Risk and return; the CAPM.</p> <p><b>Market Efficiency and Behavioral Finance</b><br/>The efficient market hypothesis; behavioral finance; financial tsunami.</p>   |

|   | <p><b>Capital Structure</b><br/>Financial leverage and firm value; implications of Modigliani and Miller propositions; capital structure and cost of capital; optimal capital structure; limits to the use of debt; valuation and capital budgeting for the levered firm.</p> <p><b>Dividend Policy</b><br/>Types of dividend; dividend policies; factors affecting dividend payout policy.</p> <p><b>Long-term Equity and Debt Financing</b><br/>Public issue; alternative issue methods; cash offer; announcement of new equity and the value of the firm; cost of new issues; rights; the new-issue puzzle; types of bonds; public issue of bonds; bond refunding; bond rating; private placement of securities.</p>  |                                   |             |  |   |   |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
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| <p><b>Teaching/Learning Methodology</b></p>                                   | <p>The subject is structured around lectures/seminars, supplemented by exercises within and outside class. Participants are urged to prepare themselves well for each class and to proactively interact with both the instructor and other students. Students should read all relevant chapters a few times and try the practice questions at the end of each chapter. Problem areas should be clarified as early as possible.</p>   |                                   |             |  |   |   |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
| <p><b>Assessment Methods in Alignment with Intended Learning Outcomes</b></p> | <p>Assessment components include written problems/projects in coursework and final examination. These assessment components require students to demonstrate their ability in understanding up-to-date corporate finance principles (Outcome 1) and analyze practical corporation finance issues (Outcome 2 &amp; 3).</p> <table border="1" data-bbox="440 1058 1450 1705"> <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>d</th> <th>e</th> <th></th> </tr> </thead> <tbody> <tr> <td>1. Class participation</td> <td>10%</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td></td> </tr> <tr> <td>2. Homework</td> <td>10%</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td></td> </tr> <tr> <td>3. Mid-term test</td> <td>30%</td> <td>✓</td> <td>✓</td> <td>✓</td> <td></td> <td></td> <td></td> </tr> <tr> <td>4. 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:<br/>Class participation–Students are required to actively participate in classroom discussion.</p> | Specific assessment methods/tasks | % weighting | Intended subject learning outcomes to be assessed (Please tick as appropriate) |   |   |  |  |  | a | b | c | d | e |  | 1. Class participation | 10% | ✓ | ✓ | ✓ | ✓ | ✓ |  | 2. Homework | 10% | ✓ | ✓ | ✓ | ✓ | ✓ |  | 3. Mid-term test | 30% | ✓ | ✓ | ✓ |  |  |  | 4. Final examination | 50% |  |  | ✓ | ✓ | ✓ |  | Total | 100 % |  |  |  |  |  |  |
| Specific assessment methods/tasks   | % weighting  |                                   |             | Intended subject learning outcomes to be assessed (Please tick as appropriate) |   |   |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
|   |  | a                                 | b           | c  | d | e |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
| 1. Class participation  | 10%  | ✓                                 | ✓           | ✓  | ✓ | ✓ |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
| 2. Homework   | 10%  | ✓                                 | ✓           | ✓  | ✓ | ✓ |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
| 3. Mid-term test  | 30%  | ✓                                 | ✓           | ✓  |   |   |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
| 4. Final examination  | 50%  |                                   |             | ✓  | ✓ | ✓ |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |
| Total   | 100 %  |                                   |             |  |   |   |  |  |  |   |   |   |   |   |  |                        |     |   |   |   |   |   |  |             |     |   |   |   |   |   |  |                  |     |   |   |   |  |  |  |                      |     |  |  |   |   |   |  |       |       |  |  |  |  |  |  |

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|                                      | <p>Homework assignments –By doing assignments at home, students are required to think through the problems and to apply concepts and techniques learned in the class to the problems.</p> <p>Mid-term test–A closed-book test with compulsory multiple choice questions and short analytical questions. It covers the intended learning outcomes (a), (b), and (c).</p> <p>Final examination–3-hour closed book examination with compulsory questions covering most of the intended learning outcomes.</p> <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 assessment components discussed above could be adjusted based on the pedagogical needs of subject lecturers.</b></p> |          |
| <b>Student Study Effort Expected</b> | Class contact:  |          |
|                                      | <ul style="list-style-type: none"> <li>▪ Lectures / Seminars</li> </ul>   | 39Hrs.   |
|                                      | Other student study effort:   |          |
|                                      | <ul style="list-style-type: none"> <li>▪ On average, students are expected to spend about 39 hours for reading teaching materials and doing exercise questions.</li> </ul>  | 39 Hrs.  |
|                                      | <ul style="list-style-type: none"> <li>▪ On average students are expected to spend 36 hours for the group project discussion, presentation, and report writing.</li> </ul>  | 36 Hrs.  |
|                                      | Total student study effort  | 114 Hrs. |
| <b>Reading List and References</b>   | <p><u>Textbook</u></p> <p>Ross, Westerfield, Jaffe, Lim, Tan and Wong, <i>Corporate Finance</i>, (Asia Global Edition), McGraw-Hill, 2015. (ISBN: 978-1-25901183-2)</p> <p><u>Reference</u></p> <p>Brealey, R., Myers, S., and F. Allen, <i>Principles of Corporate Finance</i>, McGraw-Hill, latest edition.</p> <p>Copeland, T., Weston, J., and Shastri, K., <i>Financial Theory and Corporate Policy</i>, Pearson, latest edition.</p> <p>Shefrin, H., <i>Behavioral Corporate Finance</i>, McGraw-Hill, latest edition.</p> <p><u>Journal Article</u></p> <p>Baker, Malcolm and Xuan, Yuhai, " Under new management: Equity issues and the attribution of past returns." <i>Journal of Financial Economics</i>, 2016 (121) pp.66-78.</p>   |          |