

Subject Code	:	AF4320	
Subject Title	:	Corporate Finance	
Level	:	4	
Credits	:	3	
Mode of Study	:	Seminars	42 hours
Pre-requisites	:	Business Finance (AF3313)	
Assessment	:	Coursework	40%
		Final Examination	60%
Minimum Pass Grade	:	Coursework	(D)
		Final Examination	(D)

ROLE AND PURPOSE

This subject builds on the knowledge acquired from Business Finance (AF3313) and proceeds further to consider more advanced financial issues of a corporation.

LEARNING OUTCOMES

On completion of this subject, students should be able to:

- Understand the efficient market hypothesis and its implications for corporate finance;
- Understand the arguments of capital structure irrelevance and the conditions under which it is relevant;
- Understand the relevance of dividend policy to value creation in an imperfect world;
- Understand the principle of option pricing;
- Conduct capital budgeting for a levered firm or investment;
- Understand the motives and valuation of mergers and acquisitions; and
- Integrate different aspects of finance knowledge and apply theory to practical problem-solving.

INDICATIVE CONTENT

Corporate Governance

Firm's goals. Agency problems and costs. Directors compensation schemes.

Fisher Separation Theorem

Consumption decisions and utility theory. Capital market and production opportunities. Role of financial markets and interest rates. Implication of Fisher Separation Theorem.

Efficient Market Hypothesis

Definition. Different forms of efficient market. Implications for corporate financial decisions. Anomalies.

Long-term Financing in Hong Kong Capital Market

Types of equity and debt securities traded. Issuing methods.

Capital Structure

Theories of capital structure. MM propositions and arbitrage process. Financial distress.

Valuation and Capital Budgeting for the Levered Firms

Cost of capital (review). APV approach, Flow-to-Equity approach, WACC approach.

Dividend Policy

Controversies about relevancy of dividend policy. Dividend policies in practice. Financial implications of stock dividends and stock splits.

Options

Call, put, put-call parity, Black-Scholes Model.

Mergers and Corporate Restructuring

Motives for mergers. Financial analysis for mergers. Defence tactics.

TEACHING/LEARNING APPROACH

The three hours per week will be used flexibly by the instructor for discussing key finance concepts and their applications with students and carrying out other learning activities with them. To maximize benefits from class contact, students are encouraged to share their views actively with their instructors and other classmates. There is no mandatory assignment for this subject but the instructor may assign questions or exercises to students and require students to discuss these in class.

INDICATIVE READING

Ross, S.A., R.W. Westfield and J. Jaffe, (RWJ) *Corporate Finance*, 7th Edition, Irwin McGraw-Hill.

Young, L. and R. Chiang, *The Hong Kong Securities Industry*, 3rd Edition, The Stock Exchange of Hong Kong and the Asian Pacific Institute of Business, Chinese University of Hong Kong, 1997.

SCHEDULE

No.	Topics	Reading
1	Basic Concepts of Corporate Finance Issues of Corporate Governance Time Value of Money, NPV Rule and Corporate Financial Decisions (Review)	RWJ, Chap.1
2	Roles of Financial Markets Properties of Interest Rates	RWJ, Chap.4 (App. 4A) RWJ, Chap.5 (App. 5A)
3	Efficient Capital Markets and Corporate Financial Decisions	RWJ, Chap. 13
4	Basic Sources of Long-Term Financing Issuing Equity Securities to the Public	RWJ, Chap.14 (14.1 – 14.3) YC, Chap.3 (3.8, 3.9) RWJ, Chap. 19 (19.5-19.7)
5	Long-Term Debt	RWJ, Chap.20 (20.1-20.3) YC, Chap.3 (3.12-3.18)
6	Capital Structure Theory	RWJ, Chap.15 RWJ, Chap.16
7	Valuation and Capital Budgeting for the Levered Firms	RWJ, Chap.17
8	Dividend Policy Decisions	RWJ, Chap.18
9	Options	RWJ, Chap.22
10	Mergers and Acquisitions	RWJ, Chap.29 GcGuinness, Chap.9

Note: Each topic will be covered in 3 to 4 weeks.

Key:

Ross, S.A., R.W. Westfield and Jaffe, (RWJ) *Corporate Finance*, 7th Edition, Irwin McGraw-Hill.