Business Finance

Course: FINC 332
Term: Fall 2016
Instructor: Prof. Yiping XU
E-mail: xuyiping666@yahoo.com
Phone: 64493119

Course description:
This course is designed to give students a deeper understanding of the issues managers must consider when making financial decisions. The course discusses time value of money, cost of capital, the theory of capital budgeting, capital budgeting in practice, options, derivatives application, agency theory, capital market efficiency and capital structure management, as well as special topics on corporate finance.

This course should help prepare students for careers in commercial and investment banking, corporate financial management, as well as more general business careers that have a substantial finance component.

Course outcomes:
Lectures, readings, excursions, assignments, and discussions are designed to help you develop the skills to:
- Identify after-tax incremental cash flows of corporate capital budget investments
- Value the investment projects based on NPV, IRR and other widely used evaluation criteria
- Estimate the weighted average cost of capital
- Apply real options in capital budget investment decisions
- Familiar with basic option pricing models and work out theoretical fair value of options
- Have a good command of financial derivatives hedging strategies
- Apply the agency theory to analyze conflicts between various pairs of corporate stakeholders
- Understand financial market efficiencies by analyzing the value conservation and signaling process of financial transactions
- Manage corporate financial structures by apply comparative analysis and pro forma analysis
Course Requirements and Form of Assessment:

This course is designed to be both time-consuming and challenging. Students are required to spend enough time and energy on reading the textbooks and working on the assignments, which are usually quantitative. For case studies, students are required to work in a team and present their work in class.

During the lectures, I like to encourage student participation and thus will at times actively call on students. My intention is not to test you, but rather to keep everyone actively engaged in the learning process.

Assessment:

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class assessment</td>
<td>10%</td>
</tr>
<tr>
<td>Problem sets</td>
<td>20%</td>
</tr>
<tr>
<td>Mid-term examination</td>
<td>20%</td>
</tr>
<tr>
<td>Final examination</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Attendance Policy:

Due to the nature of a typical finance course, regular attendance is required. Unreported absence will be counted in the final evaluation. An excused absence requires a written medical excuse or written approval from the school’s administration office. All other absences are considered to be unexcused. Unexcused absences will affect your grade (see below).

Penalties for unexcused absences:
1 absence – class participation grade drops one full letter grade (example: A- to B-)
2 absences – class participation grade drops two full letter grades
3 absences – class participation grade drops three full letter grades
4 or more absences – class participation grade is a failing grade

Academic Honesty

Please refer to the following web link for policies on academic honesty:
http://www.luc.edu/cas/pdfs/CAS_Academic_Integrity_Statement_December_07.pdf

Required textbooks:


Other readings:


Class Schedule

WK1: The Time Value of Money
(EFS: Ch.3, pp46-82. HW: Ch.3, pp35-64.)
1. Rates of return and Net Present Value
2. Valuing Single Cash Flows
3. Valuing Annuities
4. Multile Expected Future Cash Flows
5. Compounding Frequency
6. Partial Time Periods
7. Evaluating Special financing Offers

**WK2: Cost of Capital**
(EFS: Ch.7, pp160-187; HW: Ch.15. pp387-399.)
1. The Cost of Capital
2. Corporate Valuation
3. Value and the Risk-Return Trade-Off
4. Leverage
5. Leverage and Risk Bearing
6. The Weighted Average Cost of Capital
7. A Potential Missue of the Weighted Average Cost of Capital
8. Financial Risk

**WK3: Business Investment Rules**
(EFS: Ch. 8, pp188-215; HW: Ch.13, pp324-340 )
1. The Capital Budgeting Process
2. Net Present Value
3. Internal Rate of Return
4. Using NPV and IRR
5. Other Capital Budgeting Criteria
6. Business Investent in Practice
7. Assignment: Problem Set #1

**WK4: Capital Budgeting Cash Flows**
(EFS: Ch. 9, pp216-247; HW: Ch.7, pp164-202)
2. Calculating Incremental Cash Flows
3. An Example of Incremental Cash Flow Analysis
4. Inflation
5. A Little More Ablout Taxes
6. Evaluating Replacement Cycles

**WK5: Capital Budgeting in Practice**
(EFS: Ch. 10, pp249-274)
1. A Proposal for Capacity Expansion
2. Real Options
3. Capital Rationing
4. Managing the Firm’s Capital Budget
5. Other Factors That Are Difficult to Quantify
6. Some Practical Advice
7. Problem Set #1 due

**WK6: Case Study: The Investment Detective**
(Case material will be distributed in class)

**WK7: Mid-term exam**

**WK8: Options**
(EFS: Ch. 11, pp282-310; BMM: Ch.24. pp695-720)
1. Options
2. Buying and Selling Parts of an Asset’s Return Distribution
3. Valuing and Option
4. Some Important Generalizations about Options
5. Places to Look for Options
6. A Simple Model of Option Valuation
7. Combining Option Values

**WK9: Derivatives Applications**
(EFS: Ch.12, pp311-345. HW: Ch.14, pp353-383)
1. Options
2. Option Pricing Models
3. Warrants
4. Convertible Securities
5. Swaps
6. Forwards and Futures
7. Hedging

**WK10: Agency Theory**
(EFS: Ch. 13, pp347-382.)
1. Principal-Agent Relationships
2. Agency Costs
3. Stockholder-Manager Conflicts
4. Debtholder-Stockholder Conflicts
5. Consumer-Firm Conflicts
6. Working and Contractural Relationships
7. Monitoring
8. Assingment: Problem Set #2

**WK11: Capital Market Efficiency**
(EFS: Ch. 14, pp383-413. BMM: Ch. 12. pp347-368)
1. Efficiency
2. Liquidity and Value
3. Arbitrage: Striving for Efficiency
4. Signaling and Information
5. The Collective Wisdom
6. Value Conservation
7. Perfect Capital Markets
8. What Is the Conclusion on Market Efficiency?

**WK12: Managing Capital Structure**
(EFS: Ch. 16, pp444-476, HW: Ch.17. pp459-480)
1. Industry Effects
2. Factors Affecting a Firm's Choice of Capital Structure
3. Choosing an Appropriate Capital Structure
4. Adjusting Present Value and Required Returns for Capital Structure Effects
5. Adjusted Preent Value
7. Estimating the WACC for a Capital Budgeting Project
8. Problem Set #2 due

**WK13: Case study: Rosario Acero S.A.**
(Case material will be distributed in class)

**WK14: Final exam**