

Subject Code	AF5326
Subject Title	Managerial Finance
Credit Value	3
Level	5
Normal Duration	One Semester
Pre-requisite / Co-requisite/ Exclusion	Exclusion: Financial Management (AF5318) / Corporate Finance for Executives (AF5331)
Role and Purposes	This subject aims to provide students with a set of basic concepts and theories of modern corporate finance, with special emphasis on the link between theory and practice. It contributes to the achievement of the PgDPA / MPA Programme Outcomes by <u>enabling students to acquire up-to-date knowledge, concepts and theories, tools and analytical frameworks of financial management for making financial decisions and to apply them in solving practical financial problems</u> (Programme Outcome 2).
Subject Learning Outcomes	Upon completion of the subject, students will be able to: <ul style="list-style-type: none"> a. <u>use the basic principles</u> of valuation and the basic concepts and techniques of capital investment appraisal; b. <u>apply the principles</u> of portfolio theory and Capital Asset Pricing Model to determine the risk-return tradeoff and the cost of capital; c. <u>evaluate</u> the dividend policy and capital structure irrelevancy arguments and the conditions under which they are relevant; and d. <u>apply the concepts, tools and analytical frameworks of financial decision-making</u> to solve practical financial problems.
Subject Synopsis/ Indicative Syllabus	<p>Objectives and Functions of Corporate Finance Corporate goals and financial objectives. Agency theory. Management compensation. Corporate governance. Value of the firm expressed as contingency claims.</p> <p>Principles of Valuation Time value of money. Compounding and discounting. Short-cuts of present value calculation. Valuation of shares and bonds.</p> <p>Investment Appraisal Techniques and the Limitations Payback period. Average Accounting Return. Internal rate of return. Net present value. Profitability Index. Incremental cash flows and Capital Budgeting. Investments of unequal lives.</p> <p>Capital Investment Appraisals Real interest versus nominal interest. Cash flow and discounted cash flow. Capital budgeting techniques. Separating investment decision from financing decision. Replacement decisions. Risk analysis and real option.</p> <p>Portfolio Theory and Capital Asset Pricing Model</p>

	<p>Concept and benefits of portfolio diversification. Systematic and diversifiable risk. Efficient portfolios. Two-Fund Separation Theorem. CAPM. Determinants and estimation of beta.</p> <p>Cost of Capital Beta. Cost of Equity. Cost of Debt. Weighted Average Cost of Capital.</p> <p>Net Working Capital Management Short-term Finance and Planning. Cash Management. Credit Management</p> <p>Efficient Market Hypothesis Competition as a driving force behind information efficiency. Weak-form, semi-strong form and strong form Efficient Market Hypothesis. Empirical evidence.</p> <p>Long-term Financing Basic features of equity and debt financing. Initial public offering: mechanism and pricing. Rights offering. Bond rating, call provisions and pricing. Types of securities issued and traded in financial markets in Hong Kong.</p> <p>Capital Structure and Dividend Decisions Issues of controversy. MM propositions, implications and limitations. Pecking Order Theory. Information content of capital structure and dividend decisions.</p> <p>Valuation and Capital Budgeting for the Levered Firm NPV analysis for financing transactions, the APV approach, the Flow to Equity approach, the WACC approach.</p> <p>Corporate Finance and Hedging Risk Forward contracts, futures contracts, swaps, valuation of derivative instruments and derivative hedging.</p>																																						
<p>Teaching/Learning Methodology</p>	<p>The subject will be structured around seminars where concepts and key issues will be discussed. Apart from participating in class discussions students will utilize group synergies by forming learning groups among themselves. Coursework will require students to apply the concepts and techniques they learn in the seminars to solve practical problems.</p>																																						
<p>Assessment Methods in Alignment with Intended Learning Outcomes</p>	<table border="1"> <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></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>Project</td> <td>15%</td> <td>√</td> <td></td> <td>√</td> <td>√</td> <td></td> <td></td> </tr> <tr> <td>Midterm test</td> <td>25%</td> <td>√</td> <td>√</td> <td></td> <td>√</td> <td></td> <td></td> </tr> </tbody> </table>	Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)						a	b	c	d			Participation	10%	√	√	√	√			Project	15%	√		√	√			Midterm test	25%	√	√		√		
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	Final examination	50%	√	√	√	√		
	Total	100 %						
	<p>Explanation of the appropriateness of the assessment methods in assessing the intended learning outcomes:</p> <p>Participation – In-class discussions and participations show whether students can apply the financial methods to analyze business problems and apply the basic financial theories and present in English effectively.</p> <p>Project (Group Essay Writing) – Write an essay (theoretical and/or empirical) on how HK-listed companies determine their dividend policy and/or capital structure; OR conduct a risk-return analysis of HK-listed companies; OR conduct an analysis of the efficiency of the Hong Kong (or Chinese) stock market; OR conduct an analysis of the information content of corporate financial reporting in Hong Kong.</p> <p>Mid-term test – 1.5 hour closed-book mid-term test with MC questions and/or short questions/cases on the valuation of bonds and stocks; alternative investment rules; capital budgeting.</p> <p>Final examination – 3-hour closed-book examination with MC questions and/or long questions/cases about valuation of bond and stock, capital budgeting, stock risk-return analysis, cost of capital, capital structure and dividend policy etc.</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 Expected	Class contact:							
	▪	13 weeks of three-hour seminar	39 Hrs.					
	Other student study effort:							
	▪	Class preparations, reading subject materials/textbook, assignments and group discussions	78 Hrs.					
	Total student study effort		117 Hrs.					
Reading List and References	<p><u>Textbook</u></p> <p>Ross, S.A., R.W. Westerfield, J.F. Jaffe and B.D. Jordan, <i>Modern Financial Management</i>, latest edition, McGraw-Hill.</p> <p><u>References</u></p> <p>Brealey, R. A. and S. C. Myers, <i>Principles of Corporate Finance</i>, latest edition, McGraw-Hill.</p> <p>Chew, D. H., <i>The New Corporate Finance: Where Theory Meets Practice</i>, latest edition, McGraw-Hill.</p>							

	<p>Ho, S.S.M., R.H. Scott and K.A. Wong, <i>The Hong Kong Financial System - A New Age</i>, latest edition, Oxford University Press.</p>
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McGuinness, P. *A Guide to the Equity Markets of Hong Kong*, latest edition, Oxford University Press.

Bernstein, P.L. *Capital Ideas: The Improbable Origins of Modern Wall Street*, latest edition, Maxwell Macmillan International.

Bernstein, P.L., *Capital Ideas Evolving*, latest edition, John Wiley & Sons.