

Fall, 2018

**Chinese University of Hong Kong
Department of Economics**

Econ3540: Foundations of Corporate Finance

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Lecture Meeting Time: Tuesdays, 10:30am – 1:15pm, September 4 --- November 27, 2018.

Venue: ELB LT1

Course Description

This course is intended to provide a market-oriented framework for analyzing the major types of financial decisions made by corporations. It provides an introduction to present value techniques, capital budgeting principles and problems, and the various financial decisions of firms. After taking the course, students are expected to be able to carry out cost-benefit analysis of investment projects, and understand the mechanisms of important corporate policies such as security issuance, dividend payment, capital structure, merger and acquisitions, etc.

The Textbook

Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, Joseph Lim, Ruth Tan, and Helen Wong, Corporate Finance, Asia Global Edition, McGraw-Hill Book Co.

We will release lecture materials on the New Blackboard System (<https://blackboard.cuhk.edu.hk>) for 2017-18. Lectures aim at providing the students with the fundamental theories and techniques of the subject.

Course Requirements

The course assessment scheme is arranged as follows.

Assignments: 10%

Group project: 35% in total, group presentation of work in progress in the final teaching weeks is required; group report quality accounts for 25%, and group presentation performance 10%.

Final exam: 55%

The TA will run tutorials to discuss the course material and homework assignments. The final exam will be centrally arranged during the final exam period. The group project report will be due early around December 20, 2018. In submitting a group project, group members should sign a statement that declares their workload percentage, their assessment of whether each member has fulfilled their tasks, and their willingness to be assigned the same score for the group report.

Outline of Topics

Topic 1(*): Introduction

Topic 2: Investment Decisions --- Present Value

Topic 3: How to Calculate Present Values?

Topic 4 (*): The Valuation of Bonds and Stocks

Topic 5: Why NPV is the Best Investment Criterion?

Topic 6: Making Investment Decisions with the NPV Rule

Topic 7 (*): Risk and Asset Pricing

Topic 8 (*): The Capital Asset Pricing Model (CAPM)

Topic 9: Capital Budgeting and the CAPM

Topic 10: Financing Decisions and Market Efficiency

Topic 11: Types of Securities and Issuing Securities

Topic 12: Dividend Policy

Topic 13: Capital Structure

Topic 14: Investment and Financing Decisions

Topic 15: Mergers and Acquisitions

Topic 16: Cash and Liquidity Management

Topic 17: Financial Distress

Topic 18: Leasing

(Topics with * will be treated briefly in the lectures. Some details can be discussed in tutorials.)