

Business Finance

Dr. Yi Xue

Thursday 7:00-10:00 PM

TBA

Fall 2009

Contact Information

Office: Room 1205 Boxue Building Phone: 010-64493229
Office Hour: R: 11:00-12:00 AM Email: yxue_uibe@163.com

Course Objective

The goal of this course is to give students a deeper understanding of the issues managers must consider when making financial decisions. The course discusses cost of capital, the theory of capital budgeting, derivatives application, agency theory and the capital structure, how financial assets of the firms are managed, as well as issues involving long-term financing and 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.

Expected Outcome

1. Understand the concepts of the theory of the capital structure and cost of capital of the firm.
2. Understand how to determine incremental cash flows.
3. Understand and be able to apply the analytical techniques of capital budgeting to determine whether projects should be accepted or rejected.
4. Improve research and analytical skills through analysis and presentation.

Textbook

Corporate Financial Management, Douglas R. Emery, John D. Finnerty and John D. Stowe, Third Edition, Pearson Prentice Hall.

Supplementary Materials

1. A financial calculator with a "cash flow" button is highly recommended. (Examples: Hewlett Packard 10B; Texas Instar. AB II Plus or TI 83).
2. Related reference readings will be downloadable when applicable.

Instructional Methods

1. Lecture, problem solving, and class participation. Topics are integrated into a complete theory of the financial structure of the firm. Problems are analyzed in class in discussion and informal case presentation.
2. Corporate Analysis Project and Presentation. Each student will critically examine and prepare a written report on the global strategy of a corporation in groups. (The ideal group size is 4-5 students. However, I will divide the whole class into 2 groups.) The report will include a basic financial analysis of the company, an examination of the capital structure, dividends, capital budgeting, agency issues, and the impacts of globalization. The corporate analysis project is detailed in a separate handout. As this analysis relates to all topics covered in the course, you may be asked to give pop oral reports in which you relate a class topic to your company.
3. Assignments. There are assignments available for each chapter covered within the course and are due in the beginning of the class. Each student will submit his assignment on individual base. These assignments will form the foundation of exams. There will be 20% penalty on the late assignments.

Methods of Evaluating the Outcomes

There will be several individual assignments, one report per group, one group presentation, and one final exam. There is no midterm exam. Attendance is a downward adjusting factor only. The detailed breakdown is as follows.¹

Assignment:	20%
Report:	20%
Presentation:	20%
Final Exam:	40%

Attendance Policy

1. **Regular Class Meetings:** You are expected to attend all class meetings. Attendance will be taken each class period; using a sign up sheet. Each

¹I reserve the right to curve the grades.

unexcused absence beyond the first will result in a 1-point reduction in your overall course average. If you miss more than 4 class sessions without excuses, you will not be allowed to take the final exam.

2. **Scheduled Exams:** There will be no Makeup exams.

Academic Honesty Statement

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

Weekly Schedule

This course consists of 12 weekly classes for one semester. Each time there is one 3-session class. Each session is 60 minutes.

Class 1. A Fundamental Concept: The Time Value of Money

1. Introduction (Chapter 1)
2. Future and Present Values (Chapter 4)
3. A Simple Financial Decision (Chapter 4)

Class 2. Valuation of Bonds and Common Stock

1. Valuation of Bonds (Chapter 5)
2. Valuation of Stock (Chapter 5)

Class 3. Capital Budgeting

1. Investment Appraisal- Criteria (Chapter 6)
2. Comparisons between Criteria (Chapter 6)
3. Business Investment in Practice (Chapter 6)

Class 4. Capital Budgeting

1. Estimating Cash Flows (Chapter 7)
2. Inflation and Taxes (Chapter 7)

Class 5. Capital Budgeting in Practice

1. Capital Budgeting Options (Chapter 8)
2. Managing The Firms' Capital Budget (Chapter 8)

Class 6. Risk and Return

1. Risk and Return: Stocks (Chapter 9)
2. Expected Return and Specific Risk (Chapter 9)

Class 7. Asset Pricing Models

1. Portfolio Theory and CAPM (Chapter 10)
2. Multifactor Models (Chapter 10)
3. Arbitrage Pricing Theory (Chapter 10)

Class 8. Risk, Return, and Capital Budgeting

1. Cost of Capital (Chapter 11)
2. Leverage (Chapter 11)
3. Weighted Average Cost of Capital (Chapter 11)
4. Financial Risk (Chapter 11)

Class 9. Derivatives and Capital Budgeting

1. Agency Theory
2. Option (Chapter 12)
3. Combining Option Values (Chapter 12)

Class 10. Managing Capital Structure

1. Capital Structure Policy (Chapter 14)
2. Choosing an Appropriate Capital (Chapter 16)

Class 11. Managing Capital Structure: Continue

1. Adjusted Present Value (Chapter 16)
2. Estimating WACC for a Capital Budgeting Project (Chapter 16)
3. Case Study: A Chinese Firm's Capital Budgeting Strategies (First group)

Class 12. Dividend Policy

1. Case Study: A Chinese Firm's Capital Budgeting Strategies (Second group)
2. Dividend Policy: Income Taxes (Chapter 17)

Class 13. Final Exam

- Good Luck and Have Fun.

Notice

This Syllabus is subject to change. However efforts will be made to avoid this. Any inevitable change will be announced in class.