

NUS Business School

FIN2704/Finance

Special Term II 2019/2020

COURSE INSTRUCTOR:

A/P Chen Renbao

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Class Hours: Monday 09:00 – 12:00 and 14:00 – 17:00

Venue: Biz 2 01-11A.

Consultation Wednesday: 10:00-16:00 other time by appointment

COURSE DESCRIPTION

This course provides students with the foundations to understand the key concepts and tools used in Finance. It offers a broad overview of the financial environment under which firms operate and equips students with the conceptual and analytical skills necessary to make sound financial decisions for the firm. Throughout the course, specific examples from the Asian business environment will be considered as will some of the basic ethical issues involved in various financial decision making contexts.

COURSE MATERIALS

You will be provided with detailed course notes, which will form the basis of the course. The reference course text book is S.A. Ross, R.W. Westerfield, B.D. Jordan, J. Lim and R. Tan (2016), **Fundamentals of Corporate Finance**, 2nd Edition, McGraw-Hill Education (or Ross, Westerfield, Jordan (2019) **Fundamentals of Corporate Finance**, 12th Edition (International Edition)).

A financial calculator will be necessary – Texas Instruments BAII Plus Financial Calculator is highly recommended.

PREREQUISITE

ACC1702/ACC1702X Financial Accounting. As well, it is preferred that students have taken the equivalent of BZ1008 Statistics.

ASSESSMENT METHODS

Mid-Term - 40%

Final Examination - 50%

Class Participation - 10%

- **Mid-Term and Final:** You will be allowed to bring up to two calculators as well as ONE A4 size sheet of paper (with any notes/formulas you wish to write, on the front and back of the A4 size sheet) to the midterm as well as to the exam. **NO TEXT BOOK OR OTHER NOTES WILL BE ALLOWED.**
- **Class Participation:** Your class participation mark will be allocated based on your class and tutorial attendance, participation in class discussion and (if presentations are assigned) tutorial presentations.

ACADEMIC HONESTY & PLAGIARISM

Academic integrity and honesty is essential for the pursuit and acquisition of knowledge. The University and School expect every student to uphold academic integrity & honesty at all times. Academic dishonesty is any misrepresentation with the intent to deceive, or failure to acknowledge the source, or falsification of information, or inaccuracy of statements, or cheating at examinations/tests, or inappropriate use of resources.

Plagiarism is 'the practice of taking someone else's work or ideas and passing them off as one's own' (The New Oxford Dictionary of English). The University and School will not condone plagiarism. Students should adopt this rule - You have the obligation to make clear to the assessor which is your own work, and which is the work of others. Otherwise, your assessor is entitled to assume that everything being presented for assessment is being presented as entirely your own work. This is a minimum standard. In case of any doubts, you should consult your instructor.

Additional guidance is available at:

<http://www.nus.edu.sg/registrar/adminpolicy/acceptance.html#NUSCodeofStudentConduct>

Online Module on Plagiarism: <http://emodule.nus.edu.sg/ac/>

COURSE OUTLINE

1. Introduction

- Forms of Business Organization
- Goal of Financial Management and the Role of Ethics
- Agency Issues Between Shareholders and Managers
- The firm and its Sources of Funds

2. Financial Statement Analysis

- Uses and Limitations of Financial Statements (Including Issues of Malfeasance)
- Ratio Analysis
- Liquidity Ratios
- Asset Management Ratios
- Debt Management Ratios
- Profitability Ratios
- Market Value Ratios
- Du-Pont Identity
- Uses and Limitations of Ratio Analysis

3. Time Value of Money

- Time Lines
- Future Value and Present Value
- Annuity and Perpetuity
- Uneven Cash Flows
- Semi-annual and Other Compounding Periods
- Comparing Interest Rates

4. Concepts of Risk and Return I

- Stand-alone Risk
- Expected Return and Variability of Return of a Single Asset
- Portfolio Risk
- Diversifiable Risk vs. Market Risk
- Principle of Diversification

5. Concepts of Risk and Return II

- The Concept of Beta
- Borrowing and Lending at the Risk-Free Rate
- Capital Market Line and Security Market Line
- Capital Asset Pricing Model
- Underpriced and Overpriced Assets
- Cost of Capital

6. Bonds

- Characteristics of Bonds
- Bond Valuation
- Bond Yields

- Price-Yield Relationship
- Changes in Bond Values Over Time
- Bond Risks – Interest Rate and Reinvestment Rate
- Sensitivity of Bond Price to Changes in Interest Rate
- Different Types of Bonds

7. Common Stock

- Characteristics of Stocks
- Common Stock Valuation
- Dividend Discount Model
- Constant Dividend Growth Model
- Non-constant Growth Rate
- The Corporate Value Model

8. Techniques of Capital Budgeting I

- Capital Budgeting Process
- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Multiple IRRs & MIRR
- Payback Period
- Discounted Payback Period
- Comparisons of Capital Budgeting Methods

9. Techniques of Capital Budgeting II

- Project Analysis
- Incremental Cash Flows
- Sunk Costs, Opportunity Costs & Externalities
- Cash Flow Estimation – Single Project
- Cash Flow Estimation – Replacement Project
- Valuing a Company

10. Long-term Financial Planning

- Strategic Planning
- Sales Forecasting
- The AFN Equation
- Forecasted Financial Statements
- Growth and Financial Requirements

11. Working Capital Management

- Cash Conversion Cycle
- Alternative Current Asset Investment Policies
- Cash Budget
- Credit Policy, Terms and Standards
- Monitoring Accounts Receivable

12. Options

- Features of Options
- Calls
- Puts
- Option Payoffs
- Valuation of Options
- Risk Management, Risk Amplification and Ethics

WEEK	LECTURE TOPIC	TUTORIAL TOPIC
1: June 22	<i>Introduction & Overview of Financial Management</i> (RWJLT Chapter 1)	No Tutorial
2: June 22	<i>Financial Statement Analysis</i> (RWJLT Chapters 2,3)	No Tutorial
3: June 29	<i>Time Value of Money</i> (RWJLT Chapters 5,6)	Tutorial 1: Overview and Financial Statement Analysis
4: June 29	<i>Risk and Return I</i> (RWJLT Chapters 12, 13)	Tutorial 2: Time Value of Money
5: July 6	<i>Risk and Return II</i> (RWJLT Chapters 12, 13)	Tutorial 3: Risk and Return I
6: July 6	<i>Bonds</i> (RWJLT Chapter 7)	Tutorial 4: Risk and Return II
July 12 (Saturday) Date to be Confirmed	MIDTERM <i>Covering Lectures 1 to 5 (<u>Tutorials 1 - 4</u>)</i> <u>Time:</u> July 12 9:00-11:00 To Be Announced <u>Venue:</u> To Be Announced	
7: July 13	<i>Common Stock</i> (RWJLT Chapter 8)	Tutorial 5: Bonds
8: July 13	<i>Capital Budgeting I</i> (RWJLT Chapters 9, 10)	
9: July 20	<i>Capital Budgeting II</i> (RWJLT Chapters 9, 10)	Tutorial 6: Common Stock Tutorial 7: Capital Budgeting I
10: July 20	<i>Long-term Financial Planning</i>	

	<i>(RWJLT Chapter 4)</i>	
11: July 27	<i>Working Capital Management (RWJLT Chapter 18, 19, 20)</i>	Tutorial 8: Capital Budgeting II Tutorial 9: Long-term Financial Planning
12: July 27	<i>Options (RWJLT Chapter 24)</i>	Tutorial 10: Working Capital Management Tutorial 11: Options
13:	<i>No new lecture material to be covered</i>	
July 30 Date to be Confirmed	<i>FINAL EXAM</i> <i>Covering All Topics with more focus after mid-term exam</i> <i><u>Date:</u> Thursday, 30 July 2020 Time: 9AM-11AM</i> <i><u>Venue:</u> To Be Announced</i>	