

NATIONAL UNIVERSITY OF SINGAPORE
NUS Business School
Department of Finance
Course Outline
BMA 5008, FINANCIAL MANAGEMENT

Term 1, 2008-2009

P1/P2 class: Mon/Tue 6 to 9 p.m., HSSML Conference Room

Instructor: Ravi Jain

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Office: BIZ 2, 03-35

Office Hours: Mon/Tue 5-6 pm

Other times on walk-in basis but appointment is preferred

Course Description and Objectives

This course will provide a strong conceptual foundation for finance. Finance theory will be used to solve practical problems faced by financial managers. You will find it beneficial to have some basic knowledge of accounting, algebra, and statistics prior to enrolling in this course.

By the end of this course you should be able to:

- Understand the conflicts between shareholders and managers
- Understand the time value of money and calculate present value
- Value bonds and stocks
- Estimate cash flows for a project
- Calculate the cost of capital for projects and companies
- Use the net present value rule to evaluate a project
- Measure the risk of individual securities and portfolios
- Analyze a firm's capital structure
- Set payout policy of a firm
- Understand call and put options

Course Format

The lectures will focus on the major points introduced in the textbook. The lectures will provide general background information on the topics covered and may not necessarily be specific to the homework/case assigned. You are expected to access the course page on IVLE (ivle.nus.edu.sg) for course related information including announcements and PowerPoint slides of the lectures. Prior to class you should read the relevant material in the textbook, the PowerPoint slides, and any additional assigned readings. Although I do not explicitly grade for class participation, you are encouraged to ask questions and to be an active participant in class. You are expected to attend class regularly and to come to class on time. After the lecture, you should review your lecture notes and work on the assignments.

Textbook

The textbook for this course is *Principles of Corporate Finance*, Richard A. Brealey, Stewart C. Myers, and Franklin Allen, 9th Edition, McGraw-Hill, International Edition. You may refer to the textbook's Online Student Resource Center, which contains a lot of useful information (http://highered.mcgraw-hill.com/sites/0073286982/student_view0/index.html).

Assessment

Your grade will be based on your performance in homework assignments (5%), two case assignments (20%), a mid-term examination (25%), and a final examination (50%). The homework and case assignments are to be done by groups of approximately four to five students.

Homework

You will be asked to do a series of homework assignments. At the end of the term I will grade only two randomly selected assignments. Failure to turn in an assignment (even one which is not eventually graded) by the deadline will result in a penalty.

Case

You are expected to submit a case memorandum for two cases that we will discuss in class. Each case memorandum should be a maximum of two pages (typed and double-spaced) for the write-up and a maximum of three pages for any supporting tables/graphs/exhibits. The memorandum should also include a separate cover page listing the names of the group members, the name and number of the course, and the name of the case. Write it as a memo to the CEO or key decision-maker unless otherwise specified. The case memoranda must have a professional appearance and should not contain any blatant grammatical/spelling errors.

For each case, you will be provided with a list of study questions. These questions are not to be answered literally, but are provided to provoke thought on the key issues addressed by the case. You should keep in mind that, as in any business situation, not all the information included in a case may be relevant. Part of the art of good case analysis is to focus on the critical facts and not be distracted by detail. You may have to make some reasonable assumptions. State clearly what your assumptions are and support the assumptions you make. Effective teamwork should both lighten the workload and improve the quality of learning for all students.

You should not look for a “solution” to any case. You should present a balanced analysis of the case and discuss the pros and cons of all the options, and then convince the reader that your chosen option is superior to the others. Although I will present my ideas about how the case should be approached, it should not be considered as the only way to analyze the case. Alternative approaches, based on somewhat different but reasonable assumptions, may be equally valid, and I encourage such analyses. For this reason, and to ensure the usability of a case in future semesters, I will not distribute copies of my “solution” to a case.

Examinations

The examination format will likely be a combination of multiple-choice questions, fill-in-the-blanks, long problems, and essay-type questions. These questions will be designed to test your analytical and problem solving skills, and your knowledge of conceptual and qualitative material. The final examination will be cumulative but will emphasize topics covered after the mid-term exam.

If you are not satisfied with your grade on an exam or an assignment, you may ask for your analysis to be re-graded, giving detailed and substantial justifications for your request. Bear in mind that if I accept your request and re-grade your exam or assignment, you can be given the same grade, a higher grade or a lower grade than originally assigned.

Contact Information

In general, you may meet me at any time I am in my office. However, to ensure that I am available to talk to you during non-office hour times, I recommend that you make an appointment. No appointment is necessary if you plan to see me during the scheduled office hours. I encourage you to contact me through email. I usually check my email several times a day during weekdays; slightly less frequently on weekends.

Detailed List of Topics

The following is a detailed list of some of the major topics that are proposed to be covered in this course. Based on the progress of the class, minor changes (additions or deletions) may be made to this list.

Introduction to finance

- What is a corporation?
- The objectives of a firm
- What is the role of a financial manager?
- Separation of ownership and management

Valuation

- Introduction to present value
- The opportunity cost of capital
- Valuation of stocks and bonds

Capital Budgeting

- Making investment decisions with the Net Present Value (NPV) rule
- NPV vs. alternative criteria for making investment decisions such as the Internal Rate of Return Rule and Payback Period Rule
- Estimation of cash flows and valuing a project using discounted cash flows
- Equivalent annual costs

Risk, Return, and Cost of Capital

- The benefits of diversification
- Measures of risk for individual securities and portfolios
- Estimation of beta
- Capital Asset Pricing Model and alternative pricing models
- The cost of equity
- The weighted average cost of capital (WACC)
- Project cost of capital

Market Efficiency

- The lessons of market efficiency
- Three forms of market efficiency
- Stock market anomalies and behavioral finance

Corporate financing

- Financing a company using common stock, preferred stock, and debt
- How corporations issue securities
- Venture capital
- Initial public offerings (IPOs)

Payout policy

- How dividends are paid and how firms repurchase stock
- The payout controversy
- Dividends and taxes

Capital Structure

- How much should a company borrow?
- The trade-off theory of capital structure
- The tax benefit of debt
- The costs of financial distress
- The pecking order of financial choices

Introduction to Options

- Call and put options
- The determinants of option value