

# Financial Management

## Course Description

The objective of this course is to introduce the students to the fundamentals of finance including corporate valuation and financial management, investment decisions, and corporate financing decisions and dividend policies.

## Course Objective for AACSB

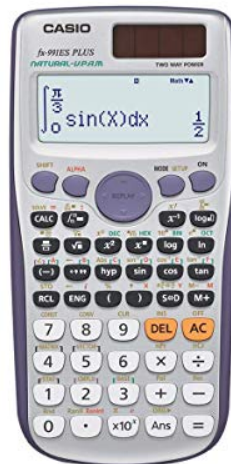
1. Students will be equipped with professional writing skills and reading ability.
2. Students will learn the fundamental concepts of corporate financial management.
3. Students will acquire a theoretical framework of the financial management and apply it to real business decisions.

## Textbook

Ross, S.A., R.W. Westerfield, J.F. Jaffe and B.D. Jordan, *Corporate Finance*, 12th ed., McGraw-Hill, 2019. (華泰代理)

## Financial Calculator :

Casio FX991ES Plus



## Exam. and Grading:

Two Midterm Exams	50% (25% each)
Final Exam	40%
Class Participation	10%

## **Outlines**

### **Week: 1**

#### **Chapter 1 Introduction to Corporate Finance**

##### 1.1 What Is Corporate Finance?

The Balance Sheet Model of the Firm

The Financial Manager

##### 1.2 The Corporate Firm

The Sole Proprietorship

The Partnership

The Corporation

A Corporation by Another Name...

##### 1.3 The Importance of Cash Flows

##### 1.4 The Goal of Financial Management

Possible Goals

The Goal of Financial Management

A More General Goal

##### 1.5 The Agency Problem and Control of the Corporation

Agency Relationships

Management Goals

Do Managers Act in the Stockholders' Interests?

Stakeholders

##### 1.6 Regulation

The Securities Act of 1933 and the Securities Exchange Act of 1934

Sarbanes-Oxley

### **Week: 2**

#### **CHAPTER 2 Financial Statement and Cash Flow**

##### 2.1 The Balance Sheet

Liquidity

Debt versus Equity

Value versus Cost

##### 2.2 The Income Statement

Generally Accepted Accounting Principles

Noncash Items

Time and Costs

2.3 Taxes

Corporate Tax Rates

Average versus Marginal Tax Rates

2.4 Net Working Capital

2.5 Financial Cash Flow

2.6 The Accounting Statement of Cash Flows

Cash Flow from Operating Activities

Cash Flow from Investing Activities

Cash Flow from Financing Activities

2.7 Cash Flow Management

**Week: 3-4**

**CHAPTER 4: Discounted Cash Flow Valuation**

4.1 Valuation: The One-Period Case

4.2 The Multiperiod Case

Future Value and Compounding

The Power of Compounding: A Digression

Present Value and Discounting

Finding the Number of Periods

The Algebraic Formula

4.3 Compounding Periods

Distinction between Stated Annual Interest Rate and Effective Annual Rate

Compounding over Many Years

Continuous Compounding

4.4 Simplifications

Perpetuity

Growing Perpetuity  
Annuity  
Growing Annuity

4.5 Loan Amortization

4.6 What is a Firm Worth?

**Weeks: 5-6**

## **CHAPTER 5 : NET PRESENT VALUE AND OTHER INVESTMENT RULES**

5.1 Why Use Net Present Value?

5.2 The Payback Period Method  
Defining the Rule  
Problems with the Payback Method  
Managerial Perspective  
Summary of Payback

5.3 The Discounted Payback Period Method

5.4 The Internal Rate of Return

5.5 Problems with the IRR Approach  
Definition of Independent and Mutually Exclusive Projects  
Two General Problems Affecting Both Independent and Mutually Exclusive  
Projects  
Problems Specific to Mutually Exclusive Projects  
Redeeming Qualities of IRR  
A Test

5.6 The Profitability Index  
Calculation of Profitability Index

**Week: 7 Midterm Exam.**

**Week: 8**

## **CHAPTER 6: MAKING CAPITAL INVESTMENT DECISIONS**

### 6.1 Incremental Cash Flows: The Key to Capital Budgeting

Cash Flows—Not Accounting Income

Sunk Costs

Opportunity Costs

Side Effects

Allocated Costs

### 6.2 The Baldwin Company: An Example

An Analysis of the Project

Which Set of Books?

A Note about Net Working Capital

A Note about Depreciation

Interest Expense

### 6.3 Inflation and Capital Budgeting

Interest Rates and Inflation

Cash Flow and Inflation

Discounting: Nominal or Real?

### 6.4 Alternative Definitions of Operating Cash Flow

The Bottom-Up Approach

The Top-Down Approach

The Tax Shield Approach

Conclusion

### 6.5 Investments of Unequal Lives: The Equivalent Annual Cost Method

The General Decision to Replace

**Week: 9-10**

## **CHAPTER 8: O INTEREST RATES AND BOND VALUATION**

### 8.1 Bonds and Bond Valuation

Bond Features and Prices

Bond Values and Yields

Interest Rate Risk

Finding the Yield to Maturity: More Trial and Error

## Zero Coupon Bonds

### 8.2 Government and Corporate Bonds

Government Bonds

Corporate Bonds

Bond Ratings

### 8.3 Bond Markets

How Bonds Are Bought and Sold

Bond Price Reporting

A Note on Bond Price Quotes

### 8.4 Inflation and Interest Rates

Real versus Nominal Rates

Inflation Risk and Inflation-Linked Bonds

The Fisher Effect

### 8.5 Determinants of Bond Yields

## **Week: 11**

## **CHAPTER 9: STOCK VALUATION**

### 9.1 The Present Value of Common Stocks

Dividends versus Capital Gains

Valuation of Different Types of Stocks

### 9.2 Estimates of Parameters in the Dividend Discount Model

Where Does  $g$  Come From?

Where Does  $R$  Come From?

A Healthy Sense of Skepticism

A Note on the Link between Dividends and Corporate Cash Flows

### 9.3 Growth Opportunities

NPVGOs of Real-World Companies

Growth in Earnings and Dividends versus Growth Opportunities

Does a Higher Retention Ratio Benefit Shareholders?

Dividends or Earnings: Which to Discount?

The No-Dividend Firm

9.4 Price-Earnings Ratio

9.5 The Stock Markets

Dealers and Brokers

Organization of the NYSE

NASDAQ Operations

Stock Market Reporting

**Week: 12**

**CHAPTER 10: RISK AND RETURN: LESSONS FROM MARKET HISTORY**

10.1 Returns

Dollar Returns

Percentage Returns

10.2 Holding Period Returns

10.3 Return Statistics

10.4 Average Stock Returns and Risk-Free Returns

10.5 Risk Statistics

Variance

Normal Distribution and Its Implications for Standard Deviation

10.6 More on Average Returns

Arithmetic versus Geometric Averages

Calculating Geometric Average Returns

Arithmetic Average Return or Geometric Average Return?

10.7 The U.S. Equity Risk Premium: Historical and International Perspectives

**Week: 13 Midterm Exam.**

**Week: 14-15**

## **CHAPTER 11: RETURN AND RISK: THE CAPITAL ASSET PRICING MODEL (CAPM)**

- 11.1 Individual Securities
- 11.2 Expected Return, Variance, and Covariance
  - Expected Return and Variance
  - Covariance and Correlation
- 11.3 The Return and Risk for Portfolios
  - The Expected Return on a Portfolio
  - Variance and Standard Deviation of a Portfolio
- 11.4 The Efficient Set for Two Assets
- 11.5 The Efficient Set for Many Securities
  - Variance and Standard Deviation in a Portfolio of Many Assets
- 11.6 Diversification
  - The Anticipated and Unanticipated Components of News
  - Risk: Systematic and Unsystematic
  - The Essence of Diversification
- 11.7 Riskless Borrowing and Lending
  - The Optimal Portfolio
- 11.8 Market Equilibrium
  - Definitions of the Market Equilibrium Portfolio
  - Definition of Risk When Investors Hold the Market Portfolio
  - The Formula for Beta
  - A Test
- 11.9 The Relationship between Risk and Expected Return (CAPM)
  - Expected Return on Market
  - Expected Return on Individual Security

**Week: 16**

## **CHAPTER 13: RISK, COST OF CAPITAL, AND CAPITAL BUDGETING**



- 13.1 The Cost of Equity Capital
- 13.2 Estimating the Cost of Equity Capital with the CAPM
  - The Risk-free Rate
  - The Market Risk Premium
- 13.3 Estimation of Beta
  - Real-World Betas
  - Stability of Beta
  - Using an Industry Beta
- 13.4 Beta, Covariance and Correlation
  - Beta and Covariance
  - Beta and Correlation
- 13.5 Determinants of Beta
  - Cyclicalities of Revenues
  - Operating Leverage
  - Financial Leverage and Beta
- 13.6 Dividend Discount Model
  - Comparison of DDM and CAPM
  - Can a Low-dividend Or a No-dividend Stock Have a High Cost of Capital
- 13.7 Cost of Capital for Divisions and Projects
- 13.8 Cost of Fixed Income Securities
  - Cost of Debt
  - Cost of Preferred Stock
- 13.9 The Weighted Average Cost of Capital
- 13.10 Estimating Eastman Chemical's Cost of Capital
- 13.11 Flotation Costs and the Weighted Average Cost of Capital

**Week: 17**

## **CHAPTER 14: EFFICIENT CAPITAL MARKETS AND BEHAVIORAL CHALLENGES**

- 14.1 Can Financing Decisions Create Value?
- 14.2 A Description of Efficient Capital Markets
  - Foundations of Market Efficiency
- 14.3 The Different Types of Efficiency
  - The Weak Form
  - The Semistrong and Strong Forms
  - Some Common Misconceptions about the Efficient Market Hypothesis
- 14.4 The Evidence
  - The Weak Form
  - The Semistrong Form
  - The Strong Form
- 14.5 The Behavioral Challenge to Market Efficiency
- 14.6 Empirical Challenges to Market Efficiency
- 14.7 Reviewing the Differences
  - Representativeness
  - Conservatism
  - The Academic Viewpoints
- 14.8 Implications for Corporate Finance
  - 1. Accounting Choices, Financial Choices, and Market Efficiency
  - 2. The Timing Decision
  - 3. Speculation and Efficient Markets
  - 4. Information in Market Prices

### **Week: 17**

## **CHAPTER 3 Financial Statements Analysis and Financial Models**

- 3.1 Financial Statements Analysis
  - Standardizing Statements

Common-Size Balance Sheets  
Common-Size Income Statements

3.2 Ratio Analysis

Short-Term Solvency or Liquidity Measures  
Long-Term Solvency Measures  
Asset Management or Turnover Measures  
Profitability Measures  
Market Value Measures

3.3 The Du Pont Identity

A Closer Look at ROE  
Problems with Financial Statement Analysis

3.4 Financial Models

A Simple Financial Planning Model  
The Percentage of Sales Approach

3.5 External Financing and Growth

EFN and Growth  
Financial Policy and Growth  
A Note about Sustainable Growth Rate Calculations

3.6 Some Caveats Regarding Financial Planning Models

**Week 18: Final Exam.**