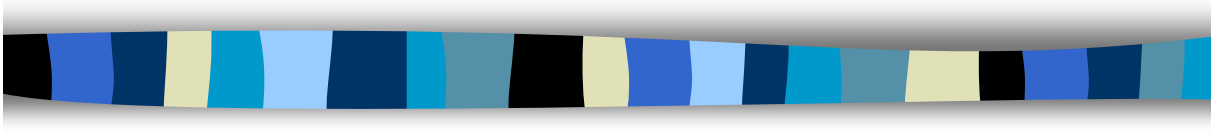


FIN 405-01

Corporate Finance



Dr. Scott Fung
California State University, East Bay
Spring Semester 2019

1

Course Topics



Part I. Fundamental Concepts/Tools

- 1. Fundamental Concepts of Corporate Finance
- 2. Corporate Financial Analyses
- 3. Firm Valuation
- 4. Risk-Return Analysis and Cost of Capital
- 5. Capital Budgeting and Advanced Valuation Methods

Part II. Corporate Financial Management

- 6. Corporate Financing Decisions, Financial Planning, and Short-Term Financing
- 7. Long-Term Financing and Capital Structure
- 8. Dividend and Payout Policies
- 9. Corporate Governance, Mergers and Acquisitions
- 10. Advanced Issues in Corporate Finance

2



Our Approach: Theory + Practice + Applications

Lectures + Review Sessions + Homework/Projects + Research + Simulation

- Analytical tools and frameworks integrated with real world examples and cases.

Individual Research Projects

- Equity Research: professional equity research and firm valuation models.
- Stock Investment Simulation: experiential learning of equity trading and analysis.

Grades, etc.

✓ Class Participation (Homework, Class Attendance)	10%
✓ Individual Research Assignment-Part I.(Equity Research)	20%
✓ Individual Research Assignment-Part II.(Investment Simulation)	20%
✓ Mid-term Exam (Week #8, Thursday, March 14, 2019)	15%
✓ Final Exam (Final Exam Week, Tuesday, May 14, 2019)	35%

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Week-by-Week Schedule (Class Meetings on Tue and Thu)

Week #1 and Week #2.

- Introduction.
- Fundamental Concepts.
- Review Session I.

Week #3 and Week #4.

- Corporate Financial Analysis.

Week #5.

- Firm Valuation.
- Review Session II.

Week #6.

- Risk-Return; Cost of Capital.

Week #7.

- Capital Budgeting.
- Advanced Valuation Methods.

Week #8.

- Review Session III.
- Mid-Term Exam.

Week #9.

- Capital Budgeting.
- Advanced Valuation Methods.

Week #10.

- Financial Planning.
- Short-Term Financing.

Week #11.

- Long-Term Financing.
- Review Session IV.

Week #12.

- Capital Structure Theories.
- Firm Valuation with Financing Effects

Week #13.

- Dividend and Payout Policies.
- Review Session V.

Week #14.

- Corporate Governance.
- M&A.

Week #15.

- Advanced Corporate Finance Issues.
- Final Review session. Conclusion.

Week #16.

- Final Exam.

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Objectives and skills acquired from this course

- Ability to perform corporate financial management and analysis in various business contexts and different types of firms, industries, and financial market settings.
- Ability to look for relevant financial information, to assess the quality of such information, to analyze these information, and to infer key insights on a firm's characteristics and value creation process.
- State-of-the-art theories and techniques in corporate finance and firm valuation.
- Sensible judgment, analytical frameworks and practical tools in financial decisions at both manager's and investor's levels.

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What shall we Learn?

- Valuation: (who, to whom ?)
 - What determine *Firm Value*? In general,
$$\text{Firm Value} = \text{Assets} + \text{Cash Flows} + \text{Growth Option}$$
 - Investment opportunities/projects
- Different financial claims/securities (based on firm value) issuing decisions:
 - Debt
 - Equity
 - Hybrid Securities
 - Other financing structures and contingent claims
- Corporate financial management (an integrated approach):
 - Short-term and long-term financing decisions; financial planning;
 - Capital structure: IPO, security issuing, leverage, etc.;
 - Capital budgeting; Investment-financing interactions;
 - Corporate governance and control;
 - Dividend and payout policies;
 - Merger and Acquisition (M&A) decisions;
 - Corporate risk management.

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Checklist: Important Tools and Concepts We'll Learn (Powerful Tools in Corporate Finance)

- **Theory of the Firm and Firm Value:**
 - Firm Value = Assets + Cash Flows + Growth Option
 - Theory of the Firm; Firm-cycle; Value creation process; Nexus of incomplete contracts.
- **Corporate Financial System Capital Market Imperfections, and the M-M Theorem:**
 - Insider vs. outsider; information asymmetry.
 - Agency cost and corporate governance.
 - Financial distress; tax effects; capital market inefficiency; other market imperfections.
- **Corporate Financial Analyses:**
 - Financial ratios (horizontal and vertical analyses with 2-step approach).
- **Firm Valuation Methods:**
 - FCF; Economic profit; EVA.
 - Sensitivity analysis; Firm valuation with financing effects (APV).
- **Risky Discount Rate and Cost of Capital, and Capital Budgeting:**
 - CAPM; WACC; Levered vs. Unlevered Beta; Project Discount Rate for NPV.
- **Corporate Financing and Capital Structure Theories :**
 - Financial planning model; Short-term financing; Working capital management;
 - Debt, Equity (Preferred Stocks, Common Equity), Hybrid Securities (Convertible Bonds).
 - Static tradeoff; Pecking order; Agency theory.
- **Other Corporate Finance Concepts and Tools:**
 - Framework of Dividend Policies.
 - Corporate governance; Market for corporate control.
 - Credit analysis, among others.

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Topic #1 Fundamental Concepts of Corporate Finance



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Overview of Topic #1

- **Learning Objectives:** Discuss the fundamental concepts of corporate finance. Describe how firms raise Venture Capital, make Initial Public Offering (IPO), and use private placement. Apply important corporate finance concepts and frameworks.
- **Important Concepts:** Corporate finance system. Firm and capital market. Notion of firm value. Capital market imperfections. Relevance of corporate financial management.
- **Tools/Learning Outcomes:** Fundamental concepts in corporate financial management and corporate financial system. Methods of security issuing, venture capital, initial public offering, and private placement. The M-M theorem and applications of capital market imperfections.

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Overview: Important Concepts to Learn

- **(I)** Firm value, risk and information.
 - ✓ Theory of the firm;
 - ✓ Determinants of firm value.
- **(II)** Objectives of corporate financial management.
- **(III)** Framework of corporate financial system: the economic interrelationships between firm, manager and financial markets.
- **(IV)** Capital market imperfections:
 - ✓ Information transparency and value to “outsiders”;
 - ✓ Agency cost and imperfect governance;
 - ✓ Other factors: taxes, financial distress, corporate control, market inefficiency, transaction costs, etc.
- **(V)** The Miller-Modigliani (M-M) Theorem [Important]:
 - ✓ Irrelevance proposition; what makes corporate finance matter.

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Prologue:

Major Financial Events of Our Times

- **Global Financial Markets and Financial Innovations:**
 - Financial innovations. Global interdependence and contagion.
 - Growth of emerging markets.
- **Financial Market Volatility and Institutions:**
 - Stock market volatility is volatile (see, e.g., VIX in 2018).
 - Greenspan's "Irrational Exuberance".
 - Rise of hedge funds and derivatives. Fall of LTCM (1998).
 - Introduction of fund of fund, fund of fund of fund, etc.
 - Rise of institutional investors: e.g., mutual funds, pension funds, etc.
- **The Great Internet Bubble (1997-2001), Dot-com (Dot-boom):**
 - IPO waves (hot market issues).
- **Corporate Governance:**
 - Enron-mania, Worldcom (the largest corporate bankruptcy in U.S. history), Tyco, Adelphia, Global Crossing, Imclone (Martha Stewart), Hewlett-Packard, and all that jazz ...
 - The Sarbanes-Oxley Act (2002): e.g. creation of the Public Company Accounting Oversight Board (PCAOB).
 - Rise of institutional ownerships and "Shareholder Activisms".

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Major Financial Events of Our Times...

- **Merger Waves:**
 - AOL-TWX (2000, 165 billions), DuPont bought by Dow Chemical (2015, 130 billions), SAB Miller bought by Anheuser-Busch (2015, 117 billions), Kraft bought by Heinz (2015, 100 billions), etc.
- **New Economy (Value Creation and Valuation Challenge):**
 - e.g., Apple, Yahoo!, eBay, Google, Facebook, Twitter, Tesla, etc.
- **Important Financial Events in 2000s:**
 - Decimalization in stock markets (2001).
 - Dividend tax cut (2003).
 - Mutual funds scandal (2003).
 - Hedge funds mania, Collapse of Bayou Hedge Fund (2005).
 - Housing Bubble (2001-2005).
 - NYSE goes public (2006).
 - Blackstone goes IPO (2007).
 - CME Group created (2007) – CME and CBOT merged.
 - CME Group acquired New York Mercantile Exchange (NYMEX) (2008).
 - CBOE goes public (2010), etc. [continued next page]

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Major Financial Events of Our Times...

■ Global Financial Crises:

- 2007 Hedge fund losses; Subprime Mortgage Crisis.
- 2008 Société Générale trading loss incident.
- 2007-2009 “Global Financial Crises”: collapses of Bear Sterns, Lehman Brothers, AIG, among others.
- In Oct 2008, the Troubled Asset Relief Program (TARP) and public bailouts.
- 2010 European Sovereign Debt Crisis.
- In July 2010, the US Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which created the Consumer Financial Protection Bureau (CFPB) to promote finance education and literacy.

■ Other Recent Events:

- Cash is King? Apple has more cash than the US treasury (2011).
- JPMorgan Chase’s trading losses from \$2 billion to \$4.4 billion, and then \$5.8 billion (as of July 2012).
- IPOs: Facebook IPO (2012), Twitter IPO (2013), Alibaba IPO (2014), Snap IPO (2017), Spotify IPO (2018), etc.
- M&As: Berkshire Hathaway and Heinz (2013); Verizon Communications and Verizon Wireless (2015); Dow Chemical and DuPont (2015); Anheuser-Busch InBev and SAB Miller (2015); Heinz and Kraft (2015); Amazon and Whole Foods (2017), AT&T and Time Warner (2018), etc.
- Bankruptcies: RadioShack, Toys R Us, Gymboree, Sears, PG&E, etc.
- Other ongoing/emerging issues: financial innovations; high-frequency trading (HFT); market manipulation; Bitcoin; crowdfunding; tax reform, etc.

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5 Important Questions in Corporate Finance

- Q1: What is a firm? How to value a firm?
- Q2: What is corporate financial system?
- Q3: What is risk? Its relation with firm value ?
- Q4: How are corporate financial decisions determined? The objectives? The variations across firms?
- Q5: How *should* corporate financial decisions be made and integrated with comprehensive corporate strategy and firm value creation?

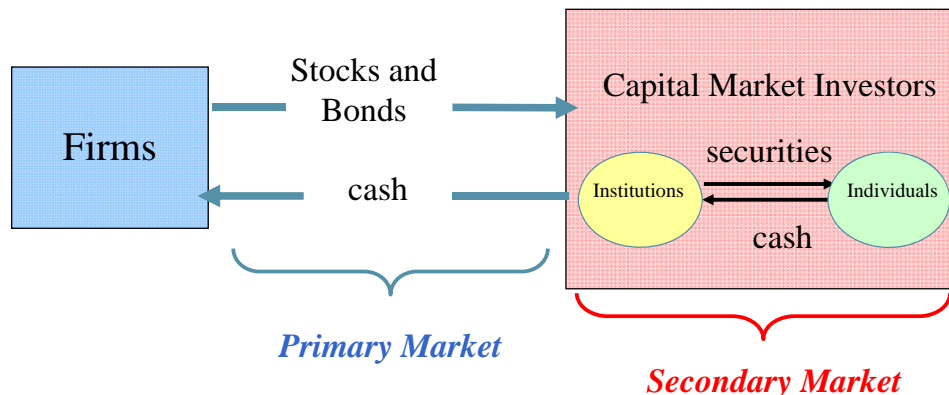
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1. Theory of the Firm

- **Legal Definition:** Sole Proprietorship, General Partnership (all partners have unlimited liability), Limited Partnership - at least one partner is a general partner with unlimited liability), Corporation (all “owners” have limited liability and ownership is easily transferred).
- **Accounting Definition:** collection of assets and liabilities
- **Economic Definition:** **Nexus of Incomplete Contracts**, market of internalizing production and resource allocation, collection of growth options.
- **[Important Concept]** The firm can be viewed as a **Nexus of Incomplete Contracts**:
 - In reality, writing a comprehensive (full contingent) contract is costly and impossible.
 - Contractual relations among Managers, Employees, Stockholders, Bondholders, etc. are often *incomplete* and subject to moral hazard and adverse selection problems.
 - One of these contracts is between shareholders and managers.
 - However, contracting and monitoring (information acquisition) activities are costly.

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2. Capital Markets: Exchange Relations



Primary Market:

The issuing of securities from a firm to investors; in exchange, funding (capital) is provided from investors to the firm.

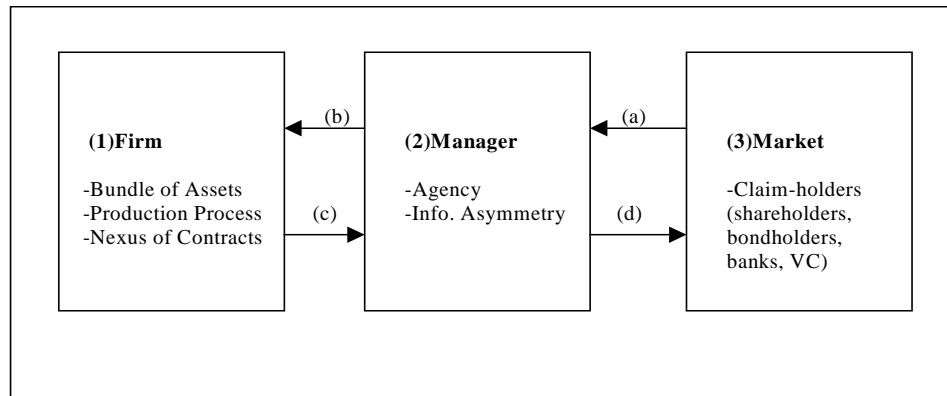
Secondary Markets:

The sale of “used” securities from one investor to another. Market liquidity will be important. Securities may be traded in exchange-traded markets or over-the-counter (OTC) markets.

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2.1. Corporate Financial System

[IMPORTANT CONCEPT]



Players:

- Firm: Managers, CFO, CEO, ..., etc.
- Market: Claim-holders (stock, bond), banks, venture capitalists, ..., etc.

Firm-Market Interactions:

- Differences in incentives (agency/governance problems)
- Differences in information/valuation (signaling/asymmetric information problem)
- Differences in perceptions about value, risk, uncertainty.

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3. Firm-Cycle, Capital Market Imperfections and Corporate Financial Management

[IMPORTANT]

<i>Capital Market Imperfections</i>	<i>Start-Up</i>	<i>IPO</i>	<i>Growth</i>	<i>Mature Firm</i>	<i>Declining</i>
Information Transparency	Opaque (due to intangible growth options)	Translucent	Translucent/Transparent	Transparent	Translucent/Transparent
Agency Cost	Moderate	Increasing	Increasing	High	High
Control	Manager + VC	Insider (Manager + VC) and Outsider (Investor)	Manager + Equity-holder	Manager + Equity-holder + Debt-holder	Manager + Equity-holder + Debt-holder
Risk and Uncertainty	Very High	Pretty High	Decreasing	Moderate	Increasing Financial Distress Risk

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4. Security issuing decisions: Venture Capital, Initial Public Offering, and Private Placements

- How do firms issue securities?
- **1. Private equity and Venture Capital:** e.g., VCs provide staged financing that is contingent on firm performance and outcomes (see Section 5).
- **2. Public equity and Going public decision - Initial Public Offering (IPO):**
 - Select underwriters (“intermediary”): **Issuing firm → Underwriters (e.g., investment banking arrangements) → investors (e.g., “road show”, “bookbuilding”)**.
 - Registration statement (including prospectus); Registering with the SEC.
 - Issue complied with “blue-sky laws” of each state that regulate sales of securities within the state.
 - Considerations: spread (difference between public offer price and price paid by underwriter), IPO Underpricing, transaction costs, underwriting fees, administrative costs, choice/location of exchanges in global markets, etc.
- **3. Other Issuing of securities:**
 - **General Cash Offers:** general cash offer of debt or equity (see next page).
 - **Private Placements:** Sale of securities to a limited number of investors without a public offering (see details next page).
 - **Rights Issue:** issue of securities offered only to current shareholders.
 - **Crowdfunding** (see next page).
 - Others: international security issues, etc.

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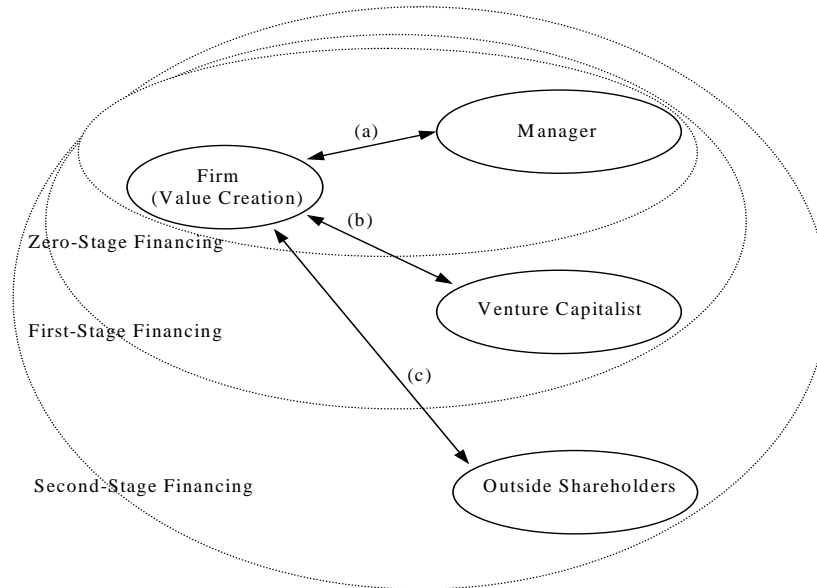


4.1. Security issuing: Further Details

- **General Cash Offer:** Issue securities to all investors by a publicly traded firm.
 - The SEC’s **Rule 415** allows firm to file a single registration statement of financing plans for up to 3 years into the future.
 - **“Self Registration”:** registration statement is “put on the shelf” and used as needed. This allows firms to file one registration statement for several issues of the same security.
- **Seasoned Offering:** Issue new/additional securities by a firm that is already publicly traded; e.g., Seasoned Equity Offering (SEO).
- **Private Placement:** Issue securities to a limited number of investors *without* a public offering.
 - **Regulation D (Reg D):** Selling securities privately without registering with the SEC. SEC allows security be sold to no more than 35 knowledgeable investors.
 - *Pros:* less costly than public issue; no need to register with the SEC (e.g., Reg D).
 - *Cons:* illiquidity; to increase liquidity, SEC **Rule 144A** allows *qualified institutional buyers* to trade unregistered securities.
- **Crowdfunding:** raise capital from a large number of investors through public platforms (e.g., internet).
 - SEC’s **Rule 506(c)** allows the issuers to raise capital from “accredited investors”.
 - Crowdfunding provides an alternative to private placements.

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5. Firm-Cycle and Staged Financing



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5.1. VC Financing

- VC Financing Cycle with Staged Financing:
 - ✓ **Zero-stage investments** - savings and personal loans the firm's principles raise to start the firm.
 - ✓ **First-stage financing** - funds provided by others (VC) to supplement the firm (private capital financing).
 - ✓ **Second-stage/subsequent-stage financing** - VC provides more funds contingent on success of initial projects development. VC will also help the firm to arrange an IPO (public equity financing) for firm's growth options.
- VC not only provides capital but also facilitate the following functions that can improve information transparency and governance:
 - Monitoring/oversight and information acquisition.
 - Corporate governance and control.
 - Communication and certification to outsiders (IPO).
 - Product market strategy*: mentoring, strategic advice, professionalization, recruitment of key management.

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5.2. The Balance-Sheet Model of the Firm (Firm Cycles and Staged Financing): (1) First-Stage Financing - Start-Up Firm

- Balance Sheet of First-Stage Financing (Start-Up Firm)

Assets	Liabilities
(1)Cash from New Equity	(1)Original Equity from Entrepreneur
(2)Intangible Assets (ideas)	(2)New Equity from VC
Total Value	Total Value

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5.3. The Balance-Sheet Model of the Firm (2) Second-Stage Financing - IPO

- Balance Sheet of Second-Stage Financing (Firms with Growth Options); Financing is *contingent* on success of stage 1.

Assets	Liabilities
(1)Cash from New Equity	(1)Original Equity from Entrepreneur
(2)Projects with Options	(2)Equity from VC
(3)Fixed Assets	(3)Public Equity (IPO)
Total Value	Total Value (After-the-Money Valuation)

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5.4. The Balance-Sheet Model of the Firm (3) Established Firm Financing

- Balance Sheet of Established (typical) Firm

Assets	Liabilities
(1) Cash from Outsiders (Debt + Equity)	(1) Original Equity from Entrepreneur
(2) Fixed Assets	(2) Equity from Outside Investors
	(3) Debt
Total Value	Total Value

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6. The Balance-Sheet Model of the Firm and Corporate Financial Decisions

Total Value of Assets:



Total Firm Value to Investors:



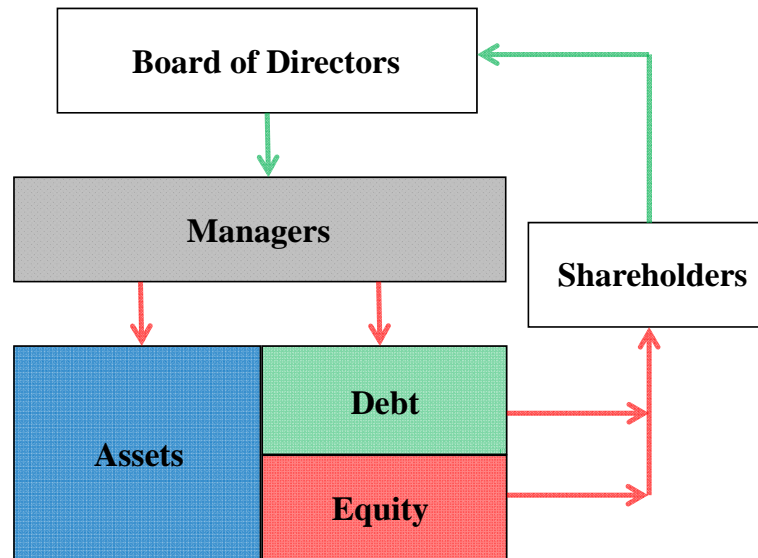
Short-term
financing
decisions

Capital Structure:
Long-term
financing decisions

Capital Budgeting:
corporate investment
decisions

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7. Separation of Ownerships and Control (Governance Structure of the Firm)



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8. Agency/Governance Problem: Building Blocks of Agency Problem [IMPORTANT CONCEPT]

- **Building Blocks of Agency/Governance Problems:**
 - ✓ Principal (shareholders) vs. Agent (managers) problem
 - ✓ Asymmetric Information between Insiders (managers) and Outsiders (shareholders) – e.g., insiders (managers) have more information than outsiders (shareholders)
 - ✓ Separation of Ownerships and Control
 - ✓ Conflicting interests/incentives: agency problems
 - ✓ Incomplete contracts
 - ✓ Inefficient Governance and imperfect allocation of control right : *de facto* vs. *de jure* control (note: shareholders have *de jure* control yet managers have *de facto* control due to separation of ownership and control)

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9. Corporate Financing Decisions

- Fundamental Problem: How *Should* firms raise money to finance investment projects, operations, and growth opportunities ?
- **Forms of Financing:**
 - ✓ Internal Fund: firms use retained earnings (*internal financing*) for investments, firms create internal capital market. Internal funding is still the most important sources of financing for U.S. firms.
 - ✓ External Capital Market: firms obtain external funding (*external financing*) from the financial markets, such as Equity, Debts, Convertible Debt, VC, etc.
 - ✓ Contingent Approach: financing methods often vary with firm characteristics, industries, and different types of capital market imperfections/tradeoffs involved.

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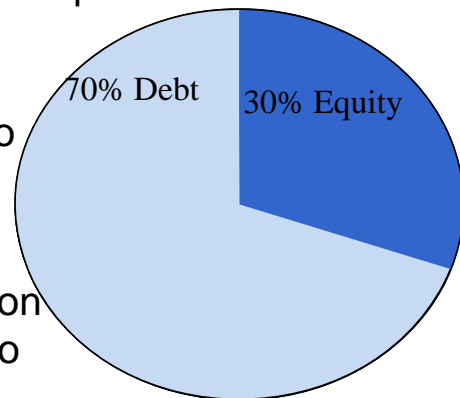
9.1. Capital Structure: Slicing up the “Pie”

An Interesting Idea: The value of the firm (total asset) can be thought of as “a pie”.

The goal of the manager is to increase the size of the pie.

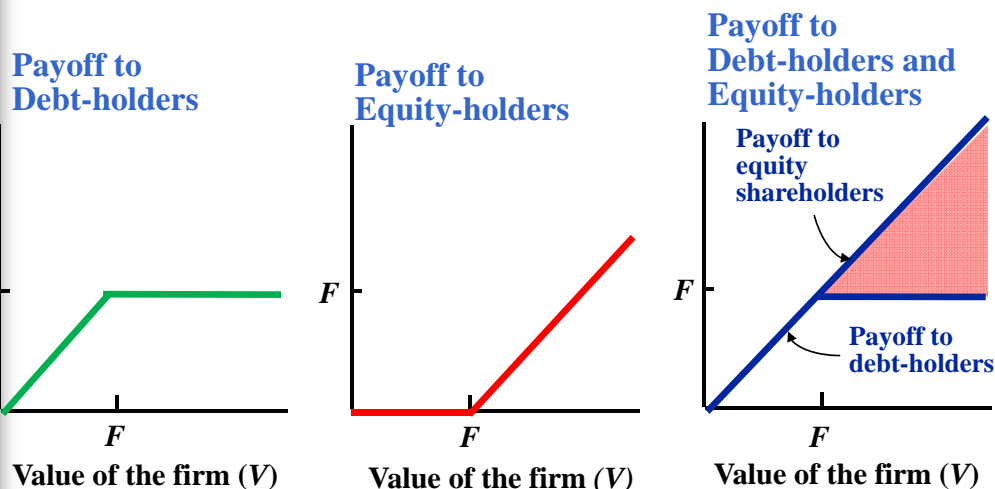
The Capital Structure decision can be viewed as how best to slice up a the pie.

If how you slice the pie affects the size of the pie, then the capital structure decision matters.



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9.2. Debt vs. Equity (as “Contingent Claims”)



- ✓ Both Debt and Equity are **Contingent Claims** based on firm value.
- ✓ Debt-holders receive fixed payment (interest payments) as long as the firm is not in insolvency.
- ✓ In contrast, Equity-holders get nothing if the firm is in insolvency. Equity-holders share the upside of firm value.

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9.3. Which financing method(s) should be chosen by the firm?

- Optimal financing choices will depend on the principle of +NPV (value-adding) financing opportunities.
- Whether particular financing method(s) are value-adding will be determined by market perfection and efficiency.
- Financing DOES NOT matter in Miller-Modigliani world in which:
 - No market imperfection: no tax effect, no governance problem, no information asymmetry, ...etc.
 - Efficient market: *no arbitrage opportunity*.

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10. Miller-Modigliani (M-M): Financing Irrelevance

[IMPORTANT CONCEPT]

- Under some assumptions (perfect capital market: no transaction cost, no asymmetric information, independence between financing and operations, ...), M-M claims the following *Irrelevance Propositions* in Corporate Financial Management:
 - Financing decisions and capital structure are *irrelevant*.
 - Dividend and liquidity are *irrelevant*.
 - Risk management is *irrelevant*.
 - Control is *irrelevant* (merely divides a pie of fixed size).
 - We can go home and don't need to study corporate finance (if there is no capital market imperfections).
- [Reference] In their seminal paper, M-M proves the irrelevance by absence of *arbitrage*: firms in the same risk class and cash flows should have same market value even though they have different capital structures (investors can undertake similar transactions as firms).

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10.1. Proper Interpretation of M-M

[IMPORTANT CONCEPT]

- The Analogy: understand the relevance of corporate finance like Newtonian Physics and “An Onion” (layer-by-layer). On the flip side, M-M tells us what factors make corporate financial decisions matter.
- In other words, using different types of market imperfections, we can determine “value-adding” opportunities of corporate financial decisions (i.e. corporate finance can help add value to the firm using different types of market imperfections).
- Different sources of market imperfections will imply the *relevance* of corporate financial management: i.e., financial decisions has real economic consequences on firm value and performance, for examples:
 - ✓ **Asymmetric information;**
 - ✓ **Agency problems**
 - ✓ **Corporate governance and control allocation;**
 - ✓ **Taxes;**
 - ✓ **Financial distress;**
 - ✓ **Inefficient market,**
 - ✓ **Transaction cost; Issuing costs, etc.**
- The implication: we can now study optimal financial decisions by relaxing the M-M's perfect market assumptions one-by-one, layer-by-layer.

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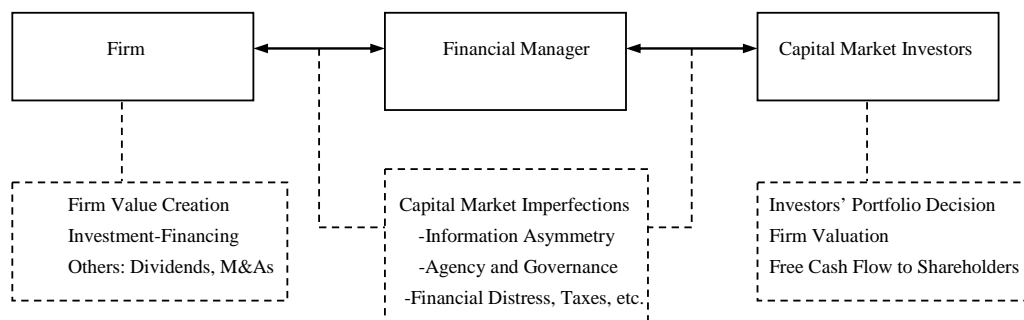
Summary: Important Concepts of This Class

- 1. Theory of the firm, firm value creation process, and incomplete contracts;
- 2. Financial markets, corporate financial system, and capital market imperfections;
- 3. Asymmetric information: insider vs. outsider of the firm;
- 4. Agency problem and imperfect governance;
- 5. Firm-cycle and corporate financial management;
- 6. Corporate financing and capital structure: debt vs. equity;
- 7. M-M theorem and capital market imperfections: objectives and tradeoffs in corporate financial management.

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Summary: Corporate Financial System (the Big Picture)

Exhibit 1. Corporate Financial System



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Conclusion: Important Corporate Finance Insights and Applications

- ❖ **Wisdom #1. The Roles of The Financial Manager and Corporate Financial Decisions**
 - ❑ Corporate investment-financing decisions based on value maximization (hints from different types of capital market imperfections).
 - ❑ Capital Structure (the “Pizza”): mix of long term debt and equity financing. Optimal capital structure based on capital market imperfections.
- ❖ **Wisdom #2. Economic Functions of Corporate Financial System [Important]**
 - ❑ Some “real” effects of the financial market matter:
 - External funding for investment opportunities.
 - Information acquisitions (e.g. valuation); provide new information and mitigation of information asymmetry.
 - Corporate Control and Governance (“Market Discipline”).
- ❖ **Application: Apply corporate finance concepts to understand IPO firms (e.g., Facebook IPO, Twitter IPO, Alibaba IPO, Snap IPO, Spotify IPO, etc.).**
- ❖ These important concepts can help us to understand the importance of corporate finance and the economic functions of capital markets (see, e.g. Homework 1).

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Useful Readings and Concepts for This Class

- **BMA (Brealey, Myers, Allen, 11th or 10th edition):**
 - Ch. 1: focus on sections 1-1, 1-2, Figure 1.1, 1-3, 1-4 (10th edition).
 - Ch. 34: focus on section 34-1.
 - Ch. 15: focus on sections 15-1, 15-2, 15-5.
- **OR**
- **BMA (Brealey, Myers, Allen, 9th edition):**
 - Ch. 1: focus on sections 1.1, 1.2 (figure 1.1), 1.3, 1.4.
 - Ch. 35: focus on section 35.1.
 - Ch. 16: focus on sections 16.1, 16.2, 16.5.
- **Make sure you understand the following concepts during your review:**
 1. Theory of the firm
 2. Value of the firm
 3. Corporate financial system
 4. Capital market imperfections (including information asymmetry, agency problem, etc.)
 5. M-M Theorem – what makes corporate finance matter?

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Homework #1 and #2

(See Blackboard “Course Materials” for Homework)

The Homework documents will be available in Blackboard (under “Course Materials”):

Homework #1: due Friday, Feb 1, 2019

Homework #2: due Friday, Feb 8, 2019

IMPORTANT Note: The homework is an *individual* homework that will be important for your study of class materials and your class participation scores.

The homework must be prepared and completed *individually*. No group work and collaboration will be allowed for individual homework. Failure to follow these requirements may result a final grade of an "F". Please prepare the homework all by yourself and submit your own/original answers to the following email address: mba.finance.sfung@gmail.com

The due date of Homework #1 will be: **Friday, Feb 1, 2019.**

The due date of Homework #2 will be: **Friday, Feb 8, 2019.**