



THE UNIVERSITY OF NEW SOUTH WALES

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SCHOOL OF BANKING AND FINANCE

FINS1613 BUSINESS FINANCE COURSE OUTLINE, SESSION 1, 2003

Introduction

This undergraduate course introduces students to the theoretical basis and analytical framework for corporate financial decision making. It is concerned with both the investment decision of the company and the determination of the financing mix necessary to achieve the company's financial objectives. Investment decisions determine the company's size, its operating profits, its business risk and its liquidity, whereas financing decisions affect the company's financing costs and its financial risk. These two decisions, combined with the dividend decision, comprise the essential financial decisions, which companies must make.

Web Site

The course web site is a primary source of information for students in this course. It can be reached from the School of Banking and Finance site at <http://banking.web.unsw.edu.au>. Self-enrollment in tutorials and lecture streams for this course will be available from a link off this site. The site will also provide information on class enrolments, timetable changes, lecture notes, tutorial problems and solutions and other information. Students should check it regularly.

Email

The University provides an email account for enrolled students. Official communications regarding this course including notification of assessment times and dates may be sent to student email accounts. All students are responsible for checking their own email account. These accounts can be easily diverted to any other email account, which the student may use (see <http://www.disconnect.unsw.edu.au>).

Lecture Times

Three streams are offered in S1 2003:

Stream 1	-	Monday	13:00 - 15:00	CLB 7
Stream 2	-	Monday	17:00 - 19:00	AS L1
Stream 3	-	Wednesday	12:00 - 14:00	CLB 7

Students must enrol in a lecture stream on the FINS1613 web site. Students have to attend the stream that they are enrolled in for lecture and exam purposes. Once a lecture stream is full, students will have to enrol in the alternative class to comply with university fire regulations.

Corequisites

Students taking this course must have passed or be currently enrolled in FINS1612 Capital Markets and Institutions or any two of the following courses: ACCT1511 Accounting and Financial Management IB, ECON1102 Macroeconomics I and ECON1203 Quantitative Methods B. It is the student's responsibility to ensure that corequisites are satisfied and that you are properly enrolled in this course, otherwise the grade in this course may be withheld.

Assessment

Student assessment in this course comprises:

Compulsory Tutorial Component	20%
Formal Examinations	80%
Mid session examination 1.5 hours	(35%)
Final examination	(45%)
100%	

Students **MUST** complete and pass each component of the course. A pass is defined as a score of at least 10/20 from the tutorial component and 40/80 from the formal examination component of the course.

Compulsory Tutorial Component (20%)

Students must enroll in a tutorial class and attend the class in which they are enrolled.

Preenroled students should note that their class enrolments may be changed. Students **MUST check their class enrolment** on the web site in week 1 before attending tutorial classes in week 2. Those students who did not pre-enrol in the course, will need to enter class preferences via the FINS 1613 website. Details of the procedure will be available there. **CHANGES TO CLASS ENROLLMENTS CANNOT BE MADE VIA THE TAS SYSTEM.** The class allocations shown there should be ignored.

Your tutorial grade is based on participation, pop-quizzes, and attendance. Tutorials are designed to complement the lecture material and involve small group discussions. Active participation is **strongly** encouraged in class. By discussing and preparing formal written answers, ample opportunity is provided to allow students to develop their written and oral skills. Students should look upon tutorials as a way in which they can (1) extend their understanding and knowledge of basic finance principles and (2) develop problem solving techniques particular to the discipline. Any difficulties associated with the textbook should also be discussed in tutorials.

Tutorial problems for the first two weeks of tutorials are listed later in this handout, problems for the subsequent weeks will be posted on the web site for this course. Solutions to key problems will be discussed in class and the final answer (without full workings) will be provided to students. Note also that not all of the set problems will be expressly discussed in tutorials. However, the questions are indicative of the breadth, style and level of difficulty of the questions and problems asked in the examinations.

(i) Tutorial Attendance (4%)

Students are expected to regularly attend their assigned tutorial classes as they contribute to the understanding of lecture material through a small group setting. Students are required to attend the tutorials as over 80% attendance is required for cases of special consideration.

WARNING: No credit will be given for attendance at tutorials other than that in which the student is enrolled.

(ii) Tutorial Participation (4%)

Students are expected to prepare detailed answers to these problems **before** attending tutorials. Students will be called upon on a random basis throughout the tutorial stream to present answers to the class. You will be assessed on these presentations and the clarity of your discussion. Students who do not participate in tutorial discussion will not have the opportunity of scoring maximum marks for tutorials. Your attendance in class will also affect this component of your grade.

(iii) Written Tutorial Test (12%)

Students will also be evaluated on their response to two 15 minute **written** short answer tests during tutorials, worth 6 marks each. Students will be given two quizzes during the session and both marks will be totalled for the tutorial quiz mark out of 12. There will be no negotiation of these grades or of the quizzes. Students who miss a quiz will receive a grade of 0 for that quiz. These quizzes will be announced during a prior tutorial, however you may receive only one week's notice of an upcoming quiz. In general, you may expect them to be used as a means of providing early feedback and continued interest in later material. Questions will be based on the lecture material presented over the previous fortnight. For example, if your tutorial test occurs in Week 11, this will cover lecture material from weeks 9 and 10 inclusive. This statement is quite clear; it means that you may be asked a question which relates to the material from the tutorial work to be covered on the day of the quiz.

Students must attend at least 60% of the tutorials and gain at least 10/20 in the Compulsory Tutorial Component, otherwise they will be deemed to have failed the course at the end of the session due to unsatisfactory performance in an essential component of the course, irrespective of how well they have done in the Formal Examination Assessment, and accordingly given a failing grade in the result of assessment.

Formal Examination Component (80%)

Mid-session examination: Time and Venue to be announced.

The mid session examination is a 1.5 hour closed book examination. No materials of any sort may be taken into the examination by students except a pencil, eraser and scientific calculator. The examination consists of 35 multiple-choice questions from the material covered in lectures of weeks 1 through 6. Questions will include problem, conceptual and descriptive material.

NOTE: There will be no lectures in week 8 and no tutorials in week 8.

Final examination: Time and Venue to be announced in University timetable

The final examination is a 2.0 hour closed book examination covering all course material, however, primary emphasis is placed on materials from those weeks not examined in the mid-session. It consists of questions and problems in a multiple-choice format.

A passing grade of 50% (40/80) is required across the examination component of the course. Students who fail to meet this criterion will be deemed to have failed the course at the end of

session because of unsatisfactory performance in an essential component of the course, irrespective of tutorial marks earned.

If you fail to sit the examination at the scheduled time, there is NO guarantee that a supplementary examination will be provided. Poor class attendance (less than 80%) is sufficient justification for the refusal of final assessment.

Note: No exceptions to the scheduled examination dates and times will be permitted. Those students making end-of-session travel plans must conform to the University timetable in making their arrangements. You must be available for the entirety of the final examination period from 20 June through 10 July.

Student's Responsibility to Notify Employers

Students should notify employers of the requirement to attend examinations. Note that there are NO acceptable grounds for failure to complete any of the assessment components.

Use of Electronic Calculators During Examinations

Students are allowed to bring a scientific calculator, either a Casio-FX or equivalent. Students who bring any other sort of calculator to the examinations will be liable to be charged with academic misconduct.

Student Identification Required for All Examinations

Student ID should be visible at all times during the examination. Students without photographic ID may not be allowed to sit the examination.

Warning about Academic Misconduct from the School of Banking & Finance, UNSW

The following is provided to FINS students as a statement of School policy in relation to Special Consideration and Academic Misconduct as approved in the School Advisory Meeting:

Academic Misconduct

Attention is drawn to the following extract from the University of New South Wales Calendar "Procedures":

Students are reminded that the University regards academic misconduct as a very serious matter. Students found guilty of academic misconduct are usually excluded from the University for two (2) years. Because of the circumstances in individual cases, the period of exclusion can range from one session to permanent exclusion from the University. The following are some of the actions that have resulted in students being found guilty of academic misconduct in recent years:

1. taking unauthorised materials into an examination;
2. impersonation in an examination;
3. permitting another student to copy answers in an examination;
4. exchanging notes between students in an examination;
5. failing to acknowledge the source of material in an assignment;
6. plagiarism;
7. submitting work for assessment knowing it to be the work of another person;
8. improperly obtaining prior knowledge of an examination paper and using that knowledge in the examination;
9. removing an examination paper from an examination where it is specified that the paper is not to be retained by the student.

Acknowledgment of Sources

Students are expected to acknowledge the source of ideas and expressions used in submitted work. To provide adequate documentation is not only an indication of academic honesty but also a courtesy enabling the marker to consult with sources with ease. Failure to do so may constitute plagiarism, which is course to a charge of academic misconduct.

Attendance and Behaviour in Classes

Under the University procedures, students are expected to be regular and punctual in attendance at all classes in which they are enrolled. All applications for exemption from attendance at classes of any kind must be made in writing to the Registrar. Note that there are provisions in these procedures for the School to refuse final assessment if students attend less than 80% of their classes.

It is expected that students present themselves in lectures as responsible persons who contribute sensitively to the learning environment provided by fellow students and instructors. Disruptive behaviour in classes will **NOT** be tolerated as it 'impairs the reasonable freedom of other persons to pursue their studies or research or to participate in the life of the University'. In the event that the ambiance of the class is affected, student(s) will be cautioned once and will be asked to leave class in the case of repeat offences. Final assessment may also be refused and may lead to suspension from all or part of the University in severe cases.

Special Consideration

Attention is drawn to the following extract from the University of New South Wales Calendar "Procedures":

"Students who believe that their performance in a course, either during session or in an examination, has been adversely affected by sickness or any other reason should inform the Registrar and apply for special consideration in the determination of their standing. The application must be made on the 'Application for Special Consideration' form available from the Student Centre. This application explains the specific information the University requires in order to make a decision. Such requests should be lodged as soon as practicable after the occurrence and in any event no more than seven days after the final examination in a course."

To be eligible for special consideration the student must notify the lecturer in charge **prior to** an examinable event to explain their situation and intentions. In addition, the student must carefully follow **all** procedures listed for special consideration as explained in the *Student Guide* (pp. 28-31). Failure to comply will result in an invalid application for consideration.

Among other items, a photocopy of all material supporting an application for special consideration, as lodged with the Registrar, must also be provided to the Lecturer-in-charge within seven (7) days of any event for which special consideration is sought. Those students making applications for further assessment will be eligible for **only** a pass. Similarly, additional assessment will not be granted for students attaining a pass in the course. It is the students' responsibility to consult the website and notice boards to determine the outcome of their application.

Students should be aware that only major illnesses constitute eligible grounds for special consideration ('minor' ailments are not eligible grounds). Documentation of hospital admission should accompany any request for special consideration. Students are expected to complete their work in a timely manner so that an illness in the last few days will not jeopardise the submission of their assignment or participation at an exam. Such illness will not constitute grounds for special consideration. Similarly, deadlines for other courses and work requirements do not constitute sufficient grounds for special consideration. Students must be meeting the 80% attendance requirement and separately passing the tutorial component of the course to be eligible for special consideration and further assessment.

Students who find themselves facing long term issues which are affecting their studies need to address these early in session. The university has many avenues for support and assistance in decisions about considerations affecting studies. Similarly, you need to notify the lecturer and your tutor early if you find yourself in a long term problematic situation.

Supplementary Examinations

If a student is prevented from taking an examination due to special circumstances beyond their control, an application for special consideration may be lodged; however, there is **NO** guarantee that a supplementary examination will be provided. Applications are evaluated by committee after the final examination period. Students sitting the original exam are generally precluded from also sitting a supplementary exam. If a student is granted a supplementary examination but does not attend that supplementary examination, he/she will not be granted further assessment.

NOTE: It is a student's responsibility to hold themselves available for the possibility of a supplementary examination. All supplementary examinations may contain an **oral** component where student responses to questions/problems are evaluated by a committee of finance lecturers.

Education Development Unit

Additional learning support, tailored to the needs of FCE students, is available from the Education Development Unit (EDU) in the Faculty. The EDU offers a range of services for FCE students including:

- Academic skills workshops run throughout the session;
- Printed and on-line study skills resources e.g. referencing guide, report writing and exam preparation;
- A drop-in resource centre containing books and audio visual material that can be borrowed;
- A limited consultation service for students with individual or small group learning needs.

More information about the EDU services including on-line resources, workshop details and consultation request forms are available from the EDU website.

Contacts and location:

EDU Web: <http://education.fce.unsw.edu.au>

EDU Location: Room 2039, Level 2 Quadrangle Building

EDU services are free and confidential and are available to students of the Faculty of Commerce and Economics.

Other UNSW support

In addition to the EDU services, the UNSW Learning Centre provides academic skills support services for students. The Learning Centre is located on Level 2 of the Library and can be contacted by Phone: 9385 3890 or through their website: <http://www.lc.unsw.edu.au/>. Students experiencing problems of an academic or personal nature are encouraged to contact the Counselling Service at UNSW. This service is free and confidential and run by professional counsellors. The Counselling Service is located on Level 2, Quadrangle East Wing, and can be contact on 9385 5418.

Required Reading for FINS1613

It is useful to read the stated chapters of the text: Brigham and Houston's **Fundamentals of Financial Management** and other references or readings, before lectures. This material, as well as the lectures and tutorials, essentially defines the examinable content of the course.

In addition to the assigned reading, students should keep informed of business and financial matters by reading the *Australian Financial Review*, *Business Review Weekly*, *Australian Business and Personal Investment*, during the session. **Business Sunday** broadcast on Channel 9 Sunday morning may also be of interest. This exposure should help students appreciate how finance theory can be applied to practical issues.

Textbook

Brigham, E. F and Huston J. F. *Fundamentals of Financial Management*, Concise 3rd edition, South Western, 2002. Note: Earlier editions are not acceptable.

Other Texts worth Consulting (Recommended Text List)

Peacock, R., Martin, P., Burrow, M., Petty, J., Keown, A., Scott, D., and Martin, J. *Financial Management*, 3rd edition. Prentice Hall, 2003.

Bishop, S., Crapp, H., Faff, R., and Twite, G., *Corporate Finance*, Holt, Rinehart, and Winston, 3rd edition, 1992, (BCFT).

Brealey, R., and Myers, S., *Principles of Corporate Finance*, McGraw-Hill, 4th edition, 1991, (BM).

Gitman, L.J., Juchau, R., Pearson, K., and Clemens, M., *Principles of Managerial Finance in Australia*, Harper Educational, 1995.

Knox, D.M., Zima, P., Brown, R.L., *Finance of Mathematics*, McGraw-Hill, 1993.

World Wide Web Resources

With the proliferation of information technology students should also check out information available in the world wild web. **This course outline, tutorial questions and other materials to be distributed in future will be available in the web site of the course.** The address is <http://banking.web.unsw.edu.au/>.

The following sites should also interest students in finance,

Regulators

Australian Securities & Investments Commission	www.asic.gov.au
U.S. Securities Exchange Commission	www.sec.gov

Newspaper, Magazine and Journals

Australian Financial Review	www.afr.com.au
Business Review Weekly	www.brw.com.au
Wall Street Journal	www.wsj.com
Business Week	www.businessweek.com
CNN Financial Network	www.cnnfn.com
Journal of Finance	www.cob.ohio-state.edu/~fin/journal/jof.htm

Exchanges

Australian Stock Exchange	www.asx.com.au
Sydney Futures Exchange	www.sfe.com.au
New York Stock Exchanges	www.nyse.com
Chicago Board of Trade	www.cbot.com
Chicago Mercantile Exchange	www.cme.com

CONSULTATION HOURS

(Session 1, 2003)

All initial student queries and problems should be directed to your tutor and discussed during tutorials. The tutor should also be consulted for any remaining problems with tutorial or enrolment matters. Questions about lecture material should be addressed to the lecturer during consultation times or immediately after the lecture. Questions concerning the overall administration of the course should be directed to the lecturer-in-charge, Dr. Sian Owen. Questions concerning tutorials should be directed to the tutor-in-charge, Mr Bill Northcott.

Instructors	Location	Telephone	Consultation Hours
Dr Sian Owen	Q3057	9385 4412	Consult
Bill Northcott	Q3051	9385 5878	Website
Prof Terry Walter	Q3037	9385 5858	for
			Times

The School's fax number for emergency situations is 9385-6347.

Lecture Outline

Week	Topic	Required Reading
1	Introduction and Some Basic Concepts	Brigham and Houston Chapter 1 (Chapters 2, 3 and 4 are also useful)
2	Financial Mathematics	Brigham and Houston Chapter 7
3	The Valuation of a Company's Securities	Brigham and Houston Chapters 8 and 9
4	Project Evaluation Under Certainty	Brigham and Houston Chapter 11
5	Capital Budgeting Applications I	Brigham and Houston Chapters 11 and 12
6	Capital Budgeting Applications II	Brigham and Houston Chapter 12
7	Risk & Portfolio Theory	Brigham and Houston Chapter 6
	<i>Mid Session Break</i>	
8	<i>Mid Session Examination (Weeks 1 – 6) No Lectures or Tutorials</i>	
9	Capital Asset Pricing Model	Brigham and Houston Chapter 6
10	Cost of Capital	Brigham and Houston Chapter 10
11	An Introduction to Capital Structure	Brigham and Houston Chapter 13
12	Capital Structure - Theory & Evidence	Brigham and Houston Chapter 13
13	Dividend Policy - Theory & Evidence; Dividend Imputation & Capital Gains	Brigham and Houston Chapter 14
14	Review in Consultation	

Popular Books

Finance does not have to be dry; you can learn a lot about finance by reading some biographies and exciting books. I list a few here; visit a professional bookstore, and you will find a lot more. The Education of a Speculator, Buffet, Alchemy of Finance, Soros on Soros, Liars' Poker, Predators' Ball, Den of Thieves, F.I.A.S.C.O., The Bold Riders and Corporate Collapses.

FINS1613 BUSINESS FINANCE
TUTORIAL QUESTIONS (Weeks 2 and 3)

WEEK 2 – Introduction and Basic Concepts

Multiple-choice Questions

- (a) Which of the following is not a type of company?
1. A sole proprietorship
 2. A partnership
 3. A corporation
 4. A hybrid
 5. A market
- (b) Important financing decisions include:
1. Dividend decisions
 2. Investment decisions
 3. Financing decisions
 4. Answers 1 and 2 only
 5. Answers 1, 2, and 3
- (c) Which of these could explain why someone would choose to operate as a sole proprietorship rather than as a corporation?
1. Sole proprietorships have limited liability
 2. There are relatively few rules relating to the establishment and running of a sole proprietorship
 3. The firm can last forever
 4. It is easy to raise large sum of money
 5. All of these answers

Longer Questions

1. What are the main responsibilities of the financial staff in a company?
2. How are globalisation and new technology affecting companies?
3. What responsibilities does a modern company have? Are there any constraints, which may inhibit companies from fulfilling these duties?
4. If managers do not behave as the shareholders wish, what measures can the shareholders take to control the managers?
5. How can agency issues affect a company's creditors? What responses are available to the creditors?

WEEK 3 – Introduction to Financial Mathematics

Multiple-choice Questions

- (a) If you have \$200 today and invest it at 5% interest, how much will you have at the end of one year?
1. \$205
 2. \$210
 3. \$220
 4. \$250
 5. None of these answers
- (b) If you have \$100 today and invest it at 7% interest for three years, how much will you have at the end? Assume the interest is compound
1. \$170.00
 2. \$122.50
 3. \$114.49
 4. \$93.46
 5. None of these answers
- (c) You invest \$200 for 4 years at an annual rate of 5%. How much will your investment be worth at the end of this time if the compounding period is change from annual to monthly?
1. \$243.10
 2. \$250.67
 3. \$244.57
 4. \$187.55
 5. None of these answers
- (d) An investment has a present value of \$150 and in 6 years time it will be worth \$212.78. What is the interest rate on this investment?
1. 4%
 2. 5%
 3. 6%
 4. 7%
 5. 8%
- (e) An investment has a present value of \$225 and a future value of \$272.63. The interest rate is 7%. How many periods does the investment last?
1. 1
 2. 2
 3. 3
 4. 4
 5. 5

Longer Questions

1. Explain the difference between simple and compound interest
2. Investments
 - a) What is the present value of an investment?
 - b) What is the future value of an investment?
3. Annuities
 - a) What is an annuity?
 - b) What is the difference between an ordinary annuity and an annuity due?
 - c) You invest the same amount in an ordinary annuity and in an annuity due. The interest rate is the same and so is the time period. Which of the investments will be worth more? Why?
 - d) How do annuities differ from perpetuities?
4. Interest rates
 - a) What are the differences between the nominal interest rates, effective interest rates and periodic interest rates?
 - b) If the nominal interest rate is 7%, and interest is compounded quarterly, what is the effective interest rate?
 - c) If the nominal interest rate is 7%, and interest is compounded quarterly, what is the periodic interest rate?
5. An investment pays the following cash flows

Time	Cash Flow (\$)
1	100
2	225
3	75
4	100
5	115

Assuming that the interest rate is 10%, that the current time is time 0, and all interest is compounded

- a) What is the present value of the investment?
- b) What is the future value of the investment?

The tutorial questions for the remaining weeks in the semester will be posted on the web site for this course.