



THE UNIVERSITY OF NEW SOUTH WALES

SCHOOL OF BANKING AND FINANCE

FINS4777/5577 ADVANCED TOPICS IN CORPORATE FINANCE Course Outline, Session 1, 2003 (subject to minor changes)

Introduction

This course will expose students to the latest research on selected topics in corporate finance. The topics covered will primarily be selected on the basis of the lecturer's area of expertise. The course assumes a sound knowledge of the theories relating to the foundations of finance.

Key Learning Outcomes

On completion of the course, you will:

- Have an understanding of the methodological issues surrounding the measurement of a firm's performance and models of expected performance;
- Be able to evaluate the impact of takeovers on both shareholder value and operating performance;
- Be able to develop statistical models using financial statement data to predict events, such as takeovers;
- Have an understanding of the restructuring choices faced by managers and how these choices can help resolve agency problems within the firm;
- Be able to critically evaluate alternative performance measurement techniques currently advocated by major consulting firms;
- Be able to identify and offer recommendations to resolve conflicts that exist in listed firms;
- Have a good understanding of issues relating to corporate governance in different countries, including the design of executive compensation schemes.

Web Page

This subject has a web site (<http://banking.web.unsw.edu.au>). Lecture overheads, tutorial discussion questions and full-text journal papers can be downloaded from this site. Class announcements will also be posted to this site.

Lectures

Monday 18.00 – 21.00 QUAD G032

Lecturers

Dr Ronan Powell (weeks 1-7)
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Dr Kingsley Fong (weeks 8-14)
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Course Format

A combination of formal lectures, discussion classes and student presentations will be used.

COURSE STRUCTURE FOR WEEKS 1 TO 7

Assessment

The first part of the course will be assessed through a group project and a class test in week 7.

- The class test will be a 2-hour exam attracting a weight of 20%. The test will comprise of 4 longer-style essay questions of which you must attempt 3. Material covered in weeks 1 to 6 will be examinable. The test is scheduled for Thursday 17th April (Time and venue TBA).
- Project: You will be divided into groups and asked to select a research topic from this outline. You will be provided with a dataset related to your chosen research topic for the purposes of financial modelling. Each group will be assigned a related academic paper to their chosen research topic and asked to replicate, as close as possible, the methodology employed. As part of the review process, each group will be asked to present the results of their empirical analysis to the class. Your write-up should follow closely the structure of your related academic paper and should be submitted the week following your group presentation. As a group, you will be awarded a mark based on both the content and presentation of your paper. The project has a weight of 30% (20% for the write-up and 10% for the presentation).
- The weighted average mark across all assessments will be used to determine pass or failure.

Lecture Program

Week 1

Financial modelling issues relating to long-run performance

- Barber, B. and J. Lyon, 'Detecting long-run abnormal stock returns: The empirical power and specification of test statistics', *Journal of Financial Economics*, Vol. 43, 1997.
- Barber, B. and J. Lyon, 'Detecting abnormal operating performance: The empirical power and specification of test statistics', *Journal of Financial Economics*, Vol. 41, 1996.
- Barber, B., Lyon, J. and C. Tsai, 'Improved methods for test of long-run abnormal stock returns', *Journal of Finance*, Vol. 54, 1999
- Kothari, S. and J. Warner, 'Measuring long-horizon security price performance', *Journal of Financial Economics*, Vol. 43, 1997.
- Mitchell, M. and E. Stafford, 'Managerial decisions and long-term stock price performance', *Journal of Business*, Vol. 73, 2000.

Week 2

Takeovers and performance

- Ghosh, A., 'Does operating performance really improve following corporate acquisitions?', *Journal of Corporate Finance*, Vol. 7, 2001
- Healy, P., K. Palepu and R. Ruback, 'Does corporate performance improve after mergers?', *Journal of Financial Economics*, Vol. 31, 1992.
- Linn, S. and J. Switzer, 'Are cash acquisitions associated with better post combination operating performance than stock acquisitions?', *Journal of Banking and Finance*, Vol. 25, 2001.
- Loughran, T. and A. Vjih, 'Do long-term shareholders benefit from corporate acquisitions?', *Journal of Finance*, Vol. 52, 1997.
- Powell, R. and A. Stark, 'Does operating performance improve post-takeover? A comparison of performance measures and benchmarks', *UNSW School of Banking and Finance Working Paper*, 2003.

Week 3

Takeovers and investment strategies

- Palepu, K., 'Predicting takeover targets: A methodological and empirical analysis', *Journal of Accounting and Economics*, Vol. 8 (1), 1986
- Powell, R., 'Takeover prediction and portfolio performance', *Journal of Business Finance and Accounting*, Vol. 28, 2001.

Week 4

Takeovers: Agency and other perspectives

- Andrade, G., Mitchell, M. and E. Stafford, 'New evidence and perspectives on mergers', *Journal of Economic Perspectives*, Vol. 15, 2001.
- Dahya, J., McConnell, J. and N.G. Travlos, 'The Cadbury committee, corporate performance and top management turnover', *Journal of Finance*, Vol. 57, 2002.

- Franks, J. and C. Mayer, ‘Hostile takeovers and the correction of managerial failure’, *Journal of Financial Economics*, Vol. 40, 1996.
- Holmstrom, B. and S. Kaplan, ‘Corporate governance and merger activity in the United States: making sense of the 1980s and 1990s’, *Journal of Economic Perspectives*, Vol. 15, 2001.
- Mitchell, M. and J. Mulherin, ‘The impact of industry shocks on takeover and restructuring activity’, *Journal of Financial Economics*, Vol. 41, 1996.

Week 5

IPOs and the underperformance debate

- Longhran, T and J. Ritter, ‘The new issues puzzle’, *Journal of Finance*, 1995.
- Ritter, J and Ivo Welch, ‘A review of IPO activity, pricing and allocations’, *Yale ICF Working Paper*, No.02-01, 2002.
- Jain, B and O. Kini ‘The post-issue operating performance of IPO firms’, *Journal of Finance*, 49, 1994.

Week 6

The performance measurement debate

- Biddle, Bowen and Wallace, ‘Evidence on the Relative and Incremental Information Content of EVA[®], Residual Income and Operating Cash flow’, *Journal of Accounting and Economics*, 1997.

Week 7 – Final group presentation and revision workshop.

Group Presentation Schedule

Week 3: Monday 17th March

Groups 1 & 2 - Takeovers and performance

Week 4: Monday 24th March

Group 3 – Takeovers and investment strategies

Group 4 - Industry level restructuring in response to shocks

Week 5: Monday 31st March

Group 5 - Internal corporate control mechanisms and the impact of Cadbury

Group 6 - External corporate control mechanisms – the hostile takeover

Week 6: Monday 7th April

Groups 7 & 8 - IPOs and the underperformance debate

Week 7: Monday 14th April

Group 9 - The performance measurement debate

(Students will receive their respective datasets two weeks prior to their scheduled group presentation)

Failure to Sit an Examination

Students should notify employers of the requirement to attend examinations. If you miss any of the class tests (for any reason – employment, sickness, timetable clashes etc.), then in exceptional circumstances (for example, hospitalisations), you may be permitted to sit the missed section at a future date when the School offers supplementary examinations. If you have been granted a supplementary exam, this information will be posted on the class web site on the last day of the examination period. You will not be advised by any other means. Failure to undertake an exam at its scheduled time does not automatically lead to reassessment (see Supplementary Exam information at the end of this handout). **It is emphasized that in the event that a supplementary exam is granted, the highest grade awarded will be a PASS for that component of the assessment.**

INFORMATION CONCERNING STUDENT CONDUCT AND RESPONSIBILITIES

Students should be aware of general University, Faculty and School rules that are discussed in detail in the UNSW Calendar. However, I draw your attention to the following issues that are particularly relevant to this course.

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.

It is the student's responsibility to ensure that they are aware of the University rules concerning their degree and meet the assessment criteria in this subject. Failure to misread this document, the Faculty handbook/University Calendar or examination timetable, or to receive announcements in class or sit examinations does not mean that further assessment is automatically granted.

Special Consideration

Attention is drawn to the following extract from the UNSW Calendar 'Procedures':

'Students who believe that their performance in a subject, 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 not more than three days after the final examination in a subject.'

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 (preferably before the examination).

Students should be aware that 'minor' ailments are not eligible grounds for special consideration. Any unsubstantiated request for special consideration will be considered to be 'minor'.

Supplementary Examinations

NOTE: Supplementary examinations are EXCEPTIONALLY RARE and are NOT given automatically. An ORAL component may also be required in addition to sitting a formal examination paper. If your performance (or attendance) throughout the session has not been satisfactory, or the reason why you did not attend the examination is not acceptable, you will be denied a supplementary examination. In sitting a supplementary exam, the highest grade awarded will be a PASS for that component of the assessment.

If a student is granted a supplementary examination but does not attend that supplementary examination, he/she will not be granted further assessment except in **HIGHLY EXCEPTIONAL** circumstances. Students are advised that if they are intending to travel overseas at the end of session/year they should consider taking out travel insurance which allows supplementary examinations as valid circumstances for cancelling travel.

Academic Misconduct

Attention is drawn to the following extract from the UNSW Calendar 'Procedures':

Academic Misconduct

'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, which have resulted in student being found guilty of academic misconduct in recent years:

- 1. Taking unauthorised materials into an examination;*
- 2. Submitting work for assessment knowing it to be the work of another person;*
- 3. Improperly obtaining prior knowledge of an examination paper and using that knowledge in the examination;*
- 4. Failing to acknowledge the source of material in an assignment.*

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 sources with ease. Failure to do so may constitute plagiarism, which is subject to a charge of academic misconduct’.

University Assessment Policy document (Page 23)

‘Plagiarism entails taking and using as one's own, the thoughts or writings of another without acknowledgement including:

- (a) where paragraphs, sentences, a single sentence or significant part of a sentence which are copied directly, are not enclosed in quotation marks and appropriately footnoted;*
- (b) where direct quotations are not used, but ideas or arguments are paraphrased or summarised, and the source of the material is not acknowledged either by footnoting or other reference within the text of the paper; and*
- (c) where an idea, which appears elsewhere in print, film or electronic medium, is used or developed without reference being made to the author or the source of the idea’.*

*Students should consult the Faculty web site for further information:
www/fce.unsw.edu.au/current_students/responsibilities.shtml#misconduct*

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