

THE UNIVERSITY OF NEW SOUTH WALES
SCHOOL OF BANKING AND FINANCE

FINS5511 CORPORATE FINANCE

SESSION 1, 2004

Two streams of this course will be run: the day stream (2-5 pm) and night stream (6 – 9 pm). A common test and final exam will be held for both streams.

Lecturer in charge:

Dr. Peter Pham
QUAD3040
Extension: 5952
Email: p.pham@unsw.edu.au

Time and Location:

Day lecture: Tuesday 2-5 pm QUAD 1027
Night lecture: Tuesday 6-9 pm MURPHY THEATRE

Tutorials and lectures are combined in 3-hour blocks. Each tutorial is approximately one hour and deals with topics discussed in the previous week's lecture. Students MUST review the last lecture and attempt the questions before the tutorial.

Introduction

Corporate Finance is an introductory course in financial management. It stresses the modern fundamentals of corporate financial decision making with special reference to investment, financing and dividend distribution. While building upon introductory courses in accounting, economics and quantitative analysis the course develops distinctive conceptual frameworks and specialised tools for solving real world financial problems at both the individual and corporate level. The course is a blend of theory and practice. While diligent practice will make you competent in financial techniques, a good grasp of theory will help you think systematically about ways to solve a problem for which no existing technique is suitable or available.

Specific topics to be covered include: financial mathematics, security valuation, techniques for capital investment decisions, financial decision making under uncertainty (portfolio theory and capital market theory), corporate capital structure, cost of capital, dividend decision and policy, options and corporate finance.

Subject objectives

FINS5511 Corporate Finance seeks to develop your skills and knowledge in the following areas of financial management:

- consumption and investment decision under certainty
- valuation of corporate securities
- capital budgeting under certainty
- capital budgeting under uncertainty
- concept of risk
- portfolio theory
- capital asset pricing theory
- cost of capital
- corporate capital structure decision

- dividend decision and policy
- equity issues and initial public offers
- options and corporate finance

Assessment

Test :	30%
Final exam:	70%

Questions in the test and the final examination include multiple choice and essay types. Students are referred to the last section of this course outline and should be fully aware of their commitments. For example, work commitment is *not* a valid ground for special consideration.

Prescribed textbooks

Ross A, Thompson S, Christensen M, Westerfield RW, & Jordan BJ, *Fundamentals of Corporate Finance*, McGraw-Hill, Third Australian edition, 2004.

School of Banking and Finance, *FINS5511 Corporate Finance Course Materials, 2004* (A collection of articles on corporate finance).

While concentrating on the textbook should be the primary task it should be noted that this is a course at the Master level, students are expected to approach study as befitting Master students (in contrast to undergraduate students). Lectures/tutorials should not be taken as 'be all and end all'. No class at the Master/postgraduate level can/should be conducted in this fashion. In this light some references are provided in the following section.

Other References

Chew DH, *The New Corporate Finance*, Third edition, McGraw-Hill, 2001.

Some articles in this book are examinable. While the book refers to the articles being drawn from Journal of Applied Corporate Finance (held in UNSW Library - SQ658.1505/10) it makes no mention of specific issues. Students may like to browse through this Journal to identify and read the articles recommended for this course. The *Corporate Finance Course Materials, 2003* also contains the original versions of some of these articles. Alternatively the book is available from UNSW Bookshop where 30 copies are held in stock.

Ross SA, Westerfield RW, & Jaffe JF, *Corporate Finance* (Irwin:, 3rd ed. or 4th ed. or 5th ed, or 6th ed).

In addition, students are expected to read the financial press regularly e.g. Australian Financial Review, Sydney Morning Herald, Business Review Week etc

COURSE OUTLINE

Week 1: 1 – 5 March
Introduction to corporate finance

Prescribed readings:

Ross, Ch. 1

Course Material Article 1: Stern Stewart roundtable on relationship investing and shareholder communication, pp. 65-95

Week 2: 8 – 12 March
Financial Maths

Week 3: 15 – 19 March
Security Valuation

Prescribed readings for weeks 2 and 3:

Ross, Chs. 5, 6

Week 4: 22 – 27 March
NPV and other investment criteria

Week 5: 29 March – 2 April
Capital Budgeting

Prescribed reading for weeks 4 and 5

Ross, Chs. 7, 8 and 9

Course Material Article 2: Myers, Finance theory and financial strategy, pp. 96 – 103

Week 6: 5 – 9 April

TEST: 6 PM – 8:30 PM TUESDAY 6 APRIL 2004

Venue of the test will be advised.

This test is common to both day and night streams. There are NO classes for this week

Scope includes lecture materials of the first 5 weeks and Chs 1, 5, 6, 7, 8 and 9.

Week 7: 19 – 23 April
Portfolio Theory

Prescribed reading

Ross, Ch. 10

Week 8: 26 – 30 April
CAPM

Prescribed readings:

Ross, Chs 10, 11

Week 9: 3 – 7 May
Capital structure

Prescribed readings:

Ross, Ch. 20

Course Material Article 3: The MM propositions after 30 years, pp. 23-46

Recommended readings:

Chew, Ch. 13 (The capital structure puzzle: another look at the evidence, pp. 197-209)

Week 10: 10 – 14 May

Cost of capital

Prescribed reading

Ross, Ch. 18

Course Material Article 4: On financial architecture: leverage, maturity and priority, pp. 47-54

Course Material Article 5: Bank of America roundtable on the link between capital structure and shareholder value, pp. 55-68

Recommended readings:

-----, Ch. 15 (Who wins in large stock buybacks – those who sell or those who hold? pp. 224-234)

Week 11: 17 – 21 May

Issuing securities to the public

Prescribed readings:

Ross, Ch 17

Course Material Article 6: Initial Public Offerings, pp. 69-73

Week 12: 24 – 28 May

Dividend policy

Prescribed reading

Ross, Chs 19

Course Material Article 7: Baker, H. Kent, et al., 2002, Revisiting the dividend puzzle: Do all of the pieces now fit?, pp. 74-94

Week 13: 31 May – 4 June

Options and corporate finance (continued)

Prescribed reading

Ross, Ch. 21

Course Material Article 8: How to use the holes in Black-Scholes, pp. 95-98

Week 14: 7 – 11 June

Revision

HOW TO USE THE ARTICLES

For each article in the course material booklet (and recommended readings from Chew, The new corporate finance) students are advised to: (i) summarize the main points and (ii) try to answer the question of how each reading adds to the coverage of corresponding materials in the Ross et al textbook. These articles will be discussed during tutorials if time permits. Contents of the articles are examinable.

PROGRAM

Week	Date	Lecture Topic	Tutorial Questions and Problems (QP)
1	1 – 5 March	Introduction to corporate finance	No tutorial (Note: each tutorial follows the lecture topic of the previous week)
2	8 – 12 March	Financial mathematics	Ch. 1, Ross et al QP: 1-10
3	15 – 19 March	Security valuation	Ch. 5 QP: 1-3, 8, 17,20, 26, 36, 41, 47, 52, 53, 55
4	22 – 26 March	NPV and other investment criteria	Ch. 6, Ross et al QP: 5-8, 10, 12, 16, 18, 19, 22, 25, 26, 27, 30
5	29 March – 2 April	Capital budgeting	Ch. 7 QP: 2, 4, 8, 11, 12, 13, 14, 17, 18, 19, 20, 21, 25.
6	5 – 9 April	TEST	
7	19 – 23 April	Portfolio theory	Ch. 8 QP: 6, 7, 9, 10, 12, 14, 15, 16, 20. Ch. 9 QP: 3, 5, 8, 10, 18, 19
8	26 – 30 April	CAPM	Ch. 10 QP: 1-14, 18-22.
9	3 – 7 May	Capital structure decision	Ch. 11 QP: 4, 6, 7, 8, 10, 11, 13, 14, 15, 16, 18, 19, 22-25
10	10 – 14 May	Cost of capital	Ch. 20 QP: 1-6, 8-21
11	17 – 21 May	Issuing securities to the public	Ch. 18 QP: 1-23
12	24 – 28 May	Dividend	Ch. 17 QP. 7, 9, 11-14
13	31 May – 4 June	Options and corporate finance	Ch. 19 QP: 2, 4, 5, 11-14, 18, 21, 23
14	7 – 11 June	Revision	Ch. 21 QP: 1-5, 13-21, 23, 27-29.

Special considerations, supplementary examination, academic misconduct

Rules of special considerations, supplementary examination, academic misconduct etc... are published on UNSW website student gateway and the School of Banking website (<http://banking.web.unsw.edu.au>). Applications must be supported by written evidence e.g. medical certificate and be lodged within three days following the test/exam date. Decisions on these matters are made by Faculty Assessment Committee. As a rule there are two grades (Pass/Fail) in a supplementary exam.

Test date and final examination date cannot be varied. Work commitment is not a valid cause for requesting a test/examination on a date other than those specified for the class.