

THE UNIVERSITY OF
NEW SOUTH WALES



Faculty of Commerce and Economics
School of Banking and Finance

FINS 5514
CAPITAL BUDGETING AND FINANCING DECISIONS

COURSE OUTLINE
SESSION 2, 2006

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1. COURSE STAFF

Lecturer in Charge

Dr Kathryn WONG

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Lectures given: Weeks 1, 9 to 14

Other Lecturing Staff

Dr Pascal NGUYEN

Office: Quad 3071

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Tel: 9385 5773

Lectures given: Weeks 2 to 8

1.1 Communication with Staff

Consultation Hours are:

Dr Kathryn Wong: Thursday 1-2, 5-6pm (weeks 1, 9-14)
Thursday 9-11am (weeks 2-8)

Dr Pascal Nguyen: Friday 2-4pm

Consultation hours are held in the lecturer's office. Outside these times meetings are by prior appointment only. To arrange an appointment you should e-mail the lecturer in question and request a meeting at a mutually convenient time.

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and Locations

Lectures:

Stream 1:	Thursday	2pm to 5pm.	OMB 112
Stream 2:	Thursday	6pm to 9pm.	Biomed Theatre E

Lab Classes [Week 6 ONLY]

Stream 1:	Thursday	2pm to 5pm.	Quad Lab 10
Stream 2:	Thursday	6pm to 9pm.	Quad Lab 04

2.2 Units of Credit

This course carries 6 UOC

2.3 Parallel teaching in the course

There is no parallel teaching for this course

2.4 Relationship of this course to other course offerings

This course is a Disciplinary Specialisation Course for students specialising in Finance on the Master of Commerce Degree. Students specialising in Finance, International Finance, Funds Management and Banking must take this course. Students specialising in Financial Econometrics may take this course or choose another Disciplinary Specialisation and should consult the Postgraduate Handbook for details.

Security Valuation and Portfolio Selection (FINS5513) is either a pre-requisite or a co-requisite. It is the responsibility of each student to ensure that this criteria has been met prior to the commencement of this course.

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

This course is primarily concerned with the major financial management decisions faced by the firm. These decisions can be broadly classified into the investment (capital budgeting) decision, the financing decision, the dividend decision and the restructuring decision. This course will examine the main theories and empirical evidence surrounding these decisions and to use this knowledge to help solve typical 'real' finance problems.

3.2 Student Learning Outcomes

By the end of this course, you should be able to:

- Explain why the separation of the ownership and the control of most major corporations can cause agency problems and describe how a judicious use of different financing vehicles can reduce these costs;
- Apply several capital budgeting techniques using MS Excel, appreciating the strengths and weaknesses of the different techniques;
- Understand how to incorporate risk and uncertainty into capital budgeting decisions and how capital budgeting is applied in practice;
- Describe how the arbitrage-based arguments of Modigliani and Miller establish the irrelevance propositions and to explain why their framework can contribute to our understanding of financing decisions;
- Explain why managers face an adverse selection problem to convince investors to give the financing that managers need to implement investment decisions and to describe how costly signalling mechanisms can assist the managers to make informed corporate finance decisions;
- Explain the key issues surrounding a company's dividend policy;
- Understand the restructuring choices faced by managers and how these choices can help resolve agency problems within the firm;
- Critically evaluate the core empirical evidence related to each of the key financial decisions.

3.3 Teaching Strategies

This course is presented through a combination of formal lectures, tutorials (problem solving classes) and computer lab classes (Week 6 only). The lectures are used to explain concepts and to give real life examples of situations in which these concepts are used. The tutorials are for problem-solving and discussion of issues raised in the lectures. Students are expected to prepare material for the tutorials in advance. The lab classes are to give students a chance to integrate the theories introduced in the lectures with spreadsheet applications. In all classes, students are encouraged to ask questions of the lecturer if there is material that they do not understand.

4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Workload

It is expected that you will spend at least **ten hours** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.2 Attendance

Your regular and punctual attendance at lectures, tutorials and the lab session is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

4.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

4.4 Keeping informed

You should take note of all announcements made in lectures, tutorials or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information.

5. LEARNING ASSESSMENT

5.1 Formal Requirements

In order to pass this course, you must:

- Achieve a composite mark of at least 50

5.2 Assessment Details

The assessment tasks on this course are:

- Class tests: A class test will be held during the normal lecture times in week 5 and week 14. These tests are designed to give students an opportunity to check their understanding of the concepts and issues raised in the material covered in the course. The tests will be of multiple-choice format in which students have to answer 35-questions in 1 hour. The first (second) test will cover material from weeks 1 to 4 (7 to 12). The tests carry a weight of 10% each (total 20%)
- Assignment: The assignment will be in the form of a mini-case study and provides students with the chance to apply the concepts that they have learned to data. You will be required to provide a solution to a capital budgeting problem using Microsoft Excel and to write-up the results in the form of a business report. You will carry out this task in groups. Details will be posted on the web including information on the format of this assignment and how to submit it. The project has a weight of 30%.
- A formal end of semester written exam will be held during the University's exam period. Details will be posted on the web later in the semester. The final exam has a weight of 50%.

Summary of Assessment Procedures					
Exam / Test	Week Held	Material Covered	Venue and Time	Duration	Weight
1 st Class Test	5	Weeks 1 to 4	In Lecture	1 hour	10%
Group Assignment		To be submitted in Week 8			30%
2 nd Class Test	14	Weeks 7 to 12	In Lecture	1 hour	10%
Final Exam	TBA	Weeks 7 to 13	TBA	3 hours	50%
Total					100%

5.3 Assignment Submission Procedure

Information on how to submit the assignment will be distributed with the assignment question.

5.4 Late Submission

Information about late submission and the penalties will be distributed with the assignment question.

5.5 Special Consideration and Supplementary examinations

UNSW policy and process for Special Consideration applies (see <https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>).

Specifically:

- Applications for special consideration (including supplementary examinations) must go through UNSW Central administration (within 3 working days of the assessment to which it refers)
- Applying for special consideration does not automatically mean that you will be granted additional assessment or that you will be awarded an amended result;
- If you are making an application for special consideration (through UNSW Central Administration) please notify your Lecturer in Charge and supply a copy of your applications complete with all supporting documentation
- Please note: a register of applications for Special Consideration is maintained. History of previous applications for Special Consideration is taken into account when considering each case.

6. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html>

Plagiarism is the presentation of the thoughts or work of another as one's own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person's assignment without appropriate acknowledgement;

- paraphrasing another person's work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does *not* amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:

www.lc.unsw.edu.au/plagiarism

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- correct referencing practices;
- paraphrasing, summarising, essay writing, and time management;
- appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre. Used with kind permission from the University of Newcastle
 † Adapted with kind permission from the University of Melbourne.

7. STUDENT RESOURCES

7.1 Course Resources

Prescribed Textbook

- Ross, Westerfield and Jordan (RWJ), 'Fundamentals of Corporate Finance', 7th Edition, McGraw-Hill, 2005.

Other texts that students may find useful include:

- Copeland, T., Koller, T. and J. Murrin, 'Valuation: Measuring and Managing the Value of Companies, Third Edition, Wiley, 2000 (S658.15/460).
- Damodaran, A, 'Corporate Finance, Theory and Practice', Wiley, 1997.
- Ross, S. A., R. W. Westerfield and J. F. Jaffe (1998), Corporate Finance, Fifth Edition, Irwin (S658.15/440).

WebCT

WebCT is used to disseminate lecture notes, tutorial problems and selected answers, assessment details, journal papers and announcements. This is the only place where these resources can be accessed. Students should make a point of checking this site regularly.

7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- **Learning and study support**
 - o FCE Education Development Unit (<http://education.fce.unsw.edu.au>)
 - o UNSW Learning Centre (<http://www.lc.unsw.edu.au>)
 - o EdTec – WebCT information (<http://www.edtec.unsw.edu.au>)
- **Counselling support** - <http://www.counselling.unsw.edu.au>
- **Library training and support services** - <http://info.library.unsw.edu.au>
- **Disability Support Services** – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (<http://www.equity.unsw.edu.au/disabil.html>). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- **Examination procedures** and advice concerning illness or misadventure
<https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html>
- **Occupational Health and Safety** policies and student responsibilities;
<http://www.riskman.unsw.edu.au/ohs/Policies%20&%20Procedures/UNSW%20OHS%20Accountability.pdf>

8. CONTINUAL COURSE IMPROVEMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

9. COURSE SCHEDULE

Week 1 (Lecturer: Dr Kathryn Wong).

Introduction to the Course and Agency Theory

Required Reading:

RWJ Chapter 1

Ang, J., Cole, R. and J. Wuh Lin, 'Agency Costs and Ownership Structure' Journal of Finance, Vol. 55, 2000.

Palepu, K. G. and P. M. Healy, 'The Fall of Enron' Harvard NOM Working Paper Number 03-38. 2003

Week 2. (Lecturer: Dr Pascal Nguyen)

The Investment Decision I

Required Reading: RWJ Chapters 5 & 6

Week 3. (Lecturer: Dr Pascal Nguyen)

The Investment Decision II

Required Reading: RWJ Chapter 9

Week 4. (Lecturer: Dr Pascal Nguyen)

The Investment Decision III

Required Reading: RWJ Chapter 10

Week 5. (Lecturer: Dr Pascal Nguyen)

1st class test and

The Investment Decision IV

Required Reading: RWJ Chapter 11

Week 6. (Lecturer: Dr Pascal Nguyen)

The Investment Decision V: Practical Applications

Held in computer labs

Week 7. (Lecturer: Dr Pascal Nguyen)

The Financing Decision I

Required Reading: RWJ Chapter 15

Week 8. (Lecturer: Dr Pascal Nguyen)

The Financing Decision II

Required Reading: RWJ Chapter 17

Week 9. (Lecturer: Dr Kathryn Wong)

The Dividend Decision I

Required Reading: RWJ Chapter 18

Week 10 (Lecturer: Dr Kathryn Wong).

The Dividend Decision II

Required Reading: RWJ Chapter 18

Fama, E. and K. French, 'Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay? Journal of Financial Economics, Vol 60, 2001

Handley, J. and K. Maheswaran, 'The Value of Australian Imputation Credits', University of Melbourne Working Paper, 2003.

Week 11. (Lecturer: Dr Kathryn Wong)

The Restructuring Decision I

Required Reading: RWJ Chapter 16

Welch, I. and J. Ritter, 'A Review of IPO Activity, Pricing and Allocations, Yale ICF Working Paper No. 02-01, 2002

Week 12. (Lecturer: Dr Kathryn Wong)

The Restructuring Decision II

Required Reading:

Andrade, G., Mitchell, M. and E. Stafford, 'New Evidence and Perspectives on Mergers', Journal of Economic Perspectives, Vol. 15, 2001

Week 13 (Lecturer: Dr Kathryn Wong).

The Restructuring Decision III

Required Reading:

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.

Week 14 (Lecturer: Dr Kathryn Wong).

2nd Class test and

Revision Lecture