

THE UNIVERSITY OF
NEW SOUTH WALES



Australian School of Business
School of Banking and Finance

FINS5514
CAPITAL BUDGETING AND FINANCING DECISIONS

COURSE OUTLINE
SEMESTER 1, 2009

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1. STAFF CONTACT DETAILS

Lecturer in Charge

A/Prof Jo-Ann Suchard

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Consultation Hours are:

A/Prof Jo-Ann Suchard : Mon 10-12 am (weeks 1-8)

Dr Sian Owen : Wednesday 10 - 12 am (weeks 9-12)

Other times by prior appointment only

2. COURSE DETAILS

2.1 Teaching Times and Locations

Lectures:

Stream 1: Monday: 2pm to 5pm. OMB 145

Stream 2: Tuesday: 2pm to 5pm. Mathews D

Stream 3: Tuesday: 6pm to 9pm. CLB 2

2.2 Units of Credit

This course carries 6 UOC

2.3 Summary of Course

Capital budgeting and financial decisions is primarily concerned with the major financial decisions faced by the firm. These decisions can be broadly classified as the investment 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.

2.4 Course Aims and Relationship to Other Courses

The two main aims of this course are:

- to provide students with an understanding of the basic theories of corporate finance decision making
- to provide students with the ability to apply these theories to numerical problems.

This course is a Disciplinary Specialisation 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 prerequisite or a corequisite for FINS5514.** It is the responsibility of to each student to ensure that this criteria has been met prior to the commencement of this course.

2.5 Student Learning Outcomes

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

1. 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;
2. Apply several capital budgeting techniques using MS Excel, appreciating the strengths and weaknesses of the different techniques;
3. Understand how to incorporate risk and uncertainty into capital budgeting decisions and how capital budgeting is applied in practice;
4. 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;
5. 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;
6. Explain the key issues surrounding a company's dividend policy;
7. Understand the restructuring choices faced by managers and how these choices can help resolve agency problems within the firm;
8. Critically evaluate the core empirical evidence related to each of the key financial decisions.

Graduate Attributes

Course Learning Outcomes	ASB Graduate Attributes
1-8	1. Critical thinking and problem solving
1	2. Social, ethical and global perspectives
1-8	3. In-depth engagement with relevant disciplinary knowledge
2,3	4. Professional skills

3. LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

The course provides the foundations of corporate finance through the explanation of financial theories and their application to numerical problems. The lectures build from the student notes to set out the main ideas, theories and conceptual frameworks for the course. The lectures also include numerical examples to demonstrate the applications of the theory. In addition, the lectures will include an interactive discussion of the application of theory to current events in financial markets. The tutorials provide an opportunity to discuss numerical questions.

3.2 Learning Activities and Teaching Strategies

This course is a combination of formal lectures and tutorials (problem solving classes). 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. In all classes, students are encouraged to ask questions of the lecturer if there is material that they do not understand.

To prepare for the course, each week you must:

- download the weekly lecture/workshop from the course website
- prepare yourself through the weekly readings
- work through the tutorial questions
- read the financial press for relevant current events
- be ready to participate in the class discussions, group work and practical activities

4. ASSESSMENT

4.1 Formal Requirements

In order to pass this course, you must:

- Achieve a composite mark of at least 50

4.2 Assessment Details

Assessment Task	Weighting	Learning Outcomes assessed	ASB Graduate Attributes assessed	Length	Due Date
1. Class Test 1	25%	1,2,3	1,2,3,4	1.5 hours	Week 6
2. Class Test 2	25%	4,5,6,8	1,3	1.5 hours	Week 12
3. Final exam	50%	1-8	1,2,3,4	2 hours	TBA

The assessment tasks on this course are:

- Class tests: Class tests will be held during the normal lecture times in week 6 and also in week 12. 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 45 questions in 1.5 hours. The first (second) test will cover material from weeks 1 to 5 (6 to 10). The first test carries a weight of 25% and the second test 25% (total 50%)
- A formal end of semester written exam will be held during the University's exam period. The exam includes written short answer and numerical problems. Details will be posted on the web later in the semester. The final exam has a weight of 50%.

5. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For UNSW policies, penalties, and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html> as well as the guidelines in the online ELISE tutorial for all new UNSW students:

<http://info.library.unsw.edu.au/skills/tutorials/InfoSkills/index.htm>.

6. COURSE RESOURCES

Prescribed textbook

- Ross, S. A., R.W. Westerfield and B. D Jordan (RWJ), 'Corporate Finance Fundamentals', 8th Edition, McGraw-Hill, 2008.

Other texts that students may find useful include:

- Copeland, T. E., J. F. Weston and K Shastri. Financial Theory and Corporate Policy". 4th edition, Pearson, 2003
- Damodaran, A, 'Corporate Finance, Theory and Practice', 2nd Edition, Wiley, 2001.

WebCT Vista

WebCT Vista 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. The address is:

<http://vista.elearning.unsw.edu.au>

Calculators

Students will need to provide their own 'approved' calculator for class tests and exams.

The list of calculators approved for use in exams at UNSW is updated frequently, the current list and the exam calculator policy is available at :

<https://my.unsw.edu.au/student/academiclife/assessment/examinations/Calculator.html>

7. COURSE EVALUATION AND DEVELOPMENT

Each year, we seek feedback from students and other stakeholders about the courses offered in the Australian School of Business and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process 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. In this course we evaluate and use your course-level feedback, both quantitative and qualitative, to guide our continued review and redesigning of the course.

Our teaching team reflects on a range of feedback sources over time. This continuous improvement process can affect one or more particular areas of the course, whether this has to do with structure, content, resources, delivery or assessment. For example, we have introduced additional student participation in class by forming break out groups to discuss key issues and concepts. A group/groups will be selected to have a nominated member present briefly to the class on key issues and raise questions.

8. STUDENT RESPONSIBILITIES AND CONDUCT

8.1 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.

8.2 Attendance

Your regular and punctual attendance at lectures and seminars 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.

8.3 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.

8.4 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

8.5 Occupational Health and Safety

UNSW Policy requires each person to work safely and responsibly, in order to avoid personal injury and to protect the safety of others. For more information, see <https://my.unsw.edu.au/student/atoz/OccupationalHealth.html>.

8.6 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. It is also your responsibility to keep the University informed of all changes to your contact details.

9. ADDITIONAL STUDENT RESOURCES AND SUPPORT

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>

10. COURSE SCHEDULE

Week 1 (Lecturer : A/Prof Jo-Ann Suchard)

Introduction to the Course

Agency Theory

Required Reading:

RWJ Chapter 1

Dobson J. (1999), 'Is Shareholder Wealth Maximisation Immoral?', Financial Analysts Journal, Sept-Oct, 69-74.

Byrd J., Parrino R. and G. Pritsch (1998), 'Stockholder-Manager Conflicts and Firm Value', Financial Analysts Journal, May-June, 14-29.

Palepu, K. G. and P. M. Healy, (2003), 'The Fall of Enron', Journal of Economic Perspectives, Vol. 17, 3-26.

Bigger than Enron : <http://www.pbs.org/wgbh/pages/frontline/shows/regulation/>

Pezzuto, Ivo ,(2008), "Miraculous Financial Engineering or Toxic Finance? The Genesis of the U.S. Subprime Mortgage Loans Crisis and its Consequences on the Global Financial Markets and Real Economy'

Inside the meltdown : <http://www.pbs.org/wgbh/pages/frontline/meltdown/>

Week 2. (Lecturer : A/Prof Jo-Ann Suchard)

The Investment Decision I

Required Reading: RWJ Chapters 5 & 6

Week 3. (Lecturer : A/Prof Jo-Ann Suchard)

The Investment Decision II

Required Reading: RWJ Chapter 9

Week 4. (Lecturer : A/Prof Jo-Ann Suchard)

The Investment Decision II

Required Reading: RWJ Chapter 10

Week 5. (Lecturer : A/Prof Jo-Ann Suchard)

The Investment Decision IV

Cost of capital

Required Reading: RWJ Chapter 11 and 15

Week 6. (Lecturer : A/Prof Jo-Ann Suchard)

Class test 1

Raising capital

Required Reading: RWJ Chapter 16.

The Wall St fix : <http://www.pbs.org/wgbh/pages/frontline/shows/wallstreet/>

Dotcon : <http://www.pbs.org/wgbh/pages/frontline/shows/dotcon/>

Optional reading : Ritter J. (2003), "Investment Banking and Securities Issuance", in Handbook of the Economics of Finance, ed Constantindes G, Harris M and R. Stulz, North Holland, 257-260

Week 7. (Lecturer : A/Prof Jo-Ann Suchard)

The Financing Decision I

Required Reading: RMJ Chapter 17

Myers, S. (2001), 'Capital Structure', Journal of Economic Perspectives, Vol. 15, 81-102.

Week 8. (Lecturer : A/Prof Jo-Ann Suchard)

The Financing Decision II

Required Reading: RMJ Chapter 17

Graham, J and C. Harvey (2002), How do CFOs make capital budgeting and capital structure decisions?, The Journal of Applied Corporate Finance Vol. 15, 8-23.

Week 9. (Lecturer : Dr Sian Owen)

The Dividend Decision

Required Reading: RMJ Chapter 18

Week 10. (Lecturer : Dr Sian Owen).

The Restructuring Decision

Week 11. (Lecturer : Dr Sian Owen)

The Restructuring Decision II

Holmstrom, B. and S. Kaplan, (2001), 'Corporate Governance and Merger Activity in the United States: Making Sense of the 1980s and 1990s', Journal of Economic Perspectives, Vol. 15, 121-144.

Week 12. (Lecturer : Dr Sian Owen)

Class test 2

Revision Lecture