

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ACST603

**PRINCIPLES OF
FINANCE**

Semester 1, 2011

Department of Applied Finance and Actuarial Studies

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Study Period: Semester 1 2011

Lecturer in Charge: Tim Kyng

Credit Points: 4

Prerequisites / Co-requisites: Nil

Not to Count for Credit With: Nil

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

ABOUT THIS UNIT

The purpose of the unit is:

- to provide students with a knowledge and understanding of the principles and techniques underlying theory and practice in Corporate Finance
- assist you to be able to analyse practical problems in the Corporate and Structured Finance and Capital Markets area

Topics covered include:

- Basic Financial Mathematics
- Valuation and analysis of Debt Securities
- Valuation and analysis of Equity Securities
- Methods for Investment evaluation and Capital Budgeting
- Financial Markets, Financial Securities: raising finance by issuing new securities
- Risk and Return & the cost of capital
- Capital Structure and Dividend Policy
- Introduction to derivative securities: Forward, Futures and Option Contracts, and applications to corporate finance
- Corporate Liabilities and International Finance
- Introduction to Risk Management

TEACHING STAFF

| Name | Role in unit | Phone | Email |
|---------------|--------------------|----------|--|
| Tim Kyng | Lecturer in Charge | 98507289 | timothy.kyng@mq.edu.au |
| To be advised | Tutor | | |

CONSULTATION TIMES

Consultation is available with students by appointment. Please see your lecturer during class time or email timothy.kyng@mq.edu.au to arrange a mutually agreeable time.

Tutor: to be advised

CLASSES

For campus students:

- A 2-hour lecture will be held each week at E6A133 on Wednesday from 2pm to 4pm.
- A 1-hour tutorial will be held each week at E6A133 on Wednesday from 4pm to 5pm.
- Further information on timetable can be found on the University web site at: <http://www.timetables.mq.edu.au>

For distance students:

- Lectures will be available by the use of Web Conferencing Software. That means you can participate lectures live. The exact URL to participate lectures live will be provided on Blackboard.
- All lecture and tutorial exercises and solutions will be available on Blackboard.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

Textbook:

Berk, Demarzo, Harford, Ford and Finch, Fundamentals of Corporate Finance, Pearson (ISBN 9781442502000)

Set chapters for each topic's lecture are drawn from this text and identified in the lecture topic table below. Students should read these chapters prior to the

lecture, so that they are familiar with the material to be covered. This will greatly enhance your learning experience. An additional resource is the textbook webpage that contains solutions for selected end-of-chapter problems, internet exercises, a glossary and other additional information.

Reference Books:

Copeland, Weston and Shastri, Financial Theory and Corporate Policy 4th Edition, Pearson (ISBN 0-321-22353-5)

Grinblatt and Titman, Financial Markets and Corporate Strategy 2nd Edition, McGraw-Hill (ISBN 0-07-229433-7)

Hull, Options, Futures and Other Derivatives 7th Edition, Prentice Hall

TECHNOLOGY USED AND REQUIRED

- Students will require access to the internet to download lecture slides and tutorial solutions.
- The textbook also contains applicable online resources that must be accessed by the internet
- The assignment and some tutorial exercises will require the use of word processing and/or spreadsheet programs.

UNIT WEB PAGE

To access the Blackboard website, go to <http://learn.mq.edu.au> and login using your usual login and password. You will then have access to the websites for all the units in which you are enrolled. If you have any trouble logging in (e.g. you have forgotten your password), please contact the Student IT Helpdesk.

Blackboard will contain all materials for this subject.

LEARNING OUTCOMES

The learning objectives of this unit are:

- Learn basic financial mathematics including the valuation of annuities, perpetuities and bonds. Learn methods of investment appraisal including NPV and IRR.
- Learn the basics of interest rate quotations and the term structure of interest rates
- Understand the principles and techniques underlying theory and practice in Corporate Finance
- Learn to use excel spreadsheet software for financial modeling and valuation of investment projects, complex transactions and capital market securities including debt, equity and hybrids

- Learn about different financial instruments and their valuation and usefulness in a Corporate Finance context
- Learn to analyse practical problems in the Corporate and Structured Finance and Capital Markets area

The learning outcomes of this unit are:

- to be able to demonstrate knowledge and understanding of the principles and techniques underlying theory and practice in Corporate Finance and Capital Markets
- develop expertise in using excel spreadsheet software to build the financial models and perform the calculations for security valuation and corporate decision making
- demonstrate awareness of different financial instruments and their valuation and usefulness in a Corporate Finance context
- be able to explain the concepts covered in the course

GRADUATE CAPABILITIES

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop the capabilities the University's graduates will need to develop to address the challenges, and to be effective, engaged participants in their world.

This unit contributes to this by developing the following graduate capabilities:

1. Application of Finance Theory
2. Ability to analyse situations from an Corporate Finance perspective
3. Critically analyse current and historical issues in Finance
4. Use of Integrative thinking to understand the role of Corporate Finance.
5. Solve problems relevant to Corporate Finance.

TEACHING AND LEARNING STRATEGY

Each lecture is self-contained and structured according to the summary provided in the “Course structure and topics” section below. Students are expected to read the relevant chapters prior to the lecture, so that they are familiar with the material to be covered. This will greatly enhance your learning experience.

Dealing with advanced material in our subject area requires a range of generic skills. This unit aims at developing such skills. The lectures and in particular the assignments and tutorial exercises are tailored to enhance critical analysis, problem-solving and creative thinking, comprehension, computing and writing skills.

You should take the time to work on the problem sets, since they will tend to be similar in nature to the problems you see on the test and exam. Solutions will be provided for the assigned selected questions.

We cover many examples of financial valuation and decision making problems and how to solve these using spreadsheets. Our approach is one of learning by example and by practicing using excel to solve financial decision making problems.

Students are expected to work independently. The assignments and the final exam may include the development of excel spreadsheets as well as essays / written reports and so on.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

A one hour multiple choice test will be conducted in week 4. The purpose of this test is to allow students to assess their progress and identify those students that are struggling with the subject matter. Where students are identified as being at risk they shall be invited to meet with their lecturer to discuss actions that will be implemented to address any issues. This test will not count for assessment purposes.

| | Tutorial problems | Assignments | Mid-semester test | Final exam |
|--|----------------------------|---|--------------------------------------|-------------------------------------|
| Due date | Weekly | Assignment 1: 8 April Assignment 2: 13 may | Week 7 | TBA |
| % Weighting | 10% (total) | 20% | 20% | 50% |
| Grading method | Frequency of participation | Against assessment criteria, analysis, judgement, recommendations | Multiple choice and written answers. | Multiple choice and written answers |
| Submission method | In Class | In class | In Class Exam | Centrally conducted Examination |
| Feedback (<i>type, method, date</i>) | Nil | Assignments and comments returned to students | Exams returned to students. | N/A |
| Estimated student workload (hours) | 11 | 15 | 1 | 2 |
| Learning outcomes assessed | | | | |
| 1 | TBA | TBA | TBA | TBA |
| 2 | TBA | TBA | TBA | TBA |
| 3 | TBA | TBA | TBA | TBA |
| 4 | TBA | TBA | | TBA |
| 5 | TBA | TBA | | TBA |
| 6 | TBA | TBA | | TBA |

| | Tutorial problems | Assignments | Mid-semester test | Final exam |
|--------------------------------|--------------------------|--------------------|--------------------------|-------------------|
| Graduate capabilities assessed | | | | |
| 1 | TBA | TBA | TBA | TBA |
| 2 | TBA | TBA | TBA | TBA |
| 3 | TBA | TBA | TBA | TBA |
| 4 | TBA | TBA | TBA | TBA |
| 5 | TBA | TBA | TBA | TBA |

TBA = “to be advised”

MID TERM EXAMINATION

There will be a 1½ hour mid-term examination in the lecture period in week 7, which will cover all of the topics up to and including week 6. Students must attend this examination, unless clearly prevented from doing so by illness or misadventure. See University Guidelines regarding Special Consideration.

FINAL EXAMINATION

There will be a 2 ½ hour final examination which covers all of the topics in the unit. Students must attend this examination.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations. <http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. The University’s policy on special consideration process is available at http://www.mq.edu.au/policy/docs/special_consideration/policy.html

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Faculties may wish to signal when the Faculties’ Supplementary Exams are normally scheduled.)

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at: <http://www.mq.edu.au/policy/docs/examination/policy.htm>

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official

examination period. (Individual Faculties may wish to signal when the Faculties' Supplementary Exams are normally scheduled.)

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, that is the final day of the official examination period.

ACADEMIC HONESTY

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

If you are unsure about how to handle incorporating scholarly sources into your own work, please contact your Lecturer or the Student Services team well in advance of your assessment for further assistance.

STUDENT SUPPORT SERVICES

Students who require assistance are encouraged to contact the Student Services Manager at Macquarie City Campus. Please see reception to book an appointment.

Macquarie University provides a range of Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

POSTGRADUATE SEMESTER 1, 2011 WEEKLY CURRICULUM

All readings relate to course textbook

| Date | Topic | Readings |
|--|--|-------------------|
| Week 1 Beginning 21 February | Introduction to Corporate Finance & Financial mathematics | Chapters 1, 3 & 4 |
| Week 2 Beginning 28 February | Interest Rates & Bond Valuation | Chapters 5 & 6 |
| Week 3 Beginning 7 March | Capital Budgeting & Project Evaluation | Chapters 7 & 8 |
| Week 4 Beginning 14 March | Financial Statements Analysis, financial information and share valuation | Chapters 2 & 9 |
| Week 5 Beginning 21 March | Risk & Return | Chapters 10 & 11 |
| Week 6 Beginning 28 March | The cost of capital | Chapter 12 |
| Week 7 Beginning 4 April | Mid Term Test & Case Studies using excel | |
| Mid-Semester Break Saturday 9 April until Monday 25 April (inclusive) | | |
| Week 8 Beginning 25 April | Raising new capital – Debt & Equity | Chapters 13 & 14 |
| Week 9 Beginning 2 May | Capital Structure & Payout Policy | Chapters 15 & 16 |
| Week 10 Beginning 9 May | Options, futures, forwards and applications to Corporate Finance | Chapter 20 |
| Week 11 Beginning 16 May | Risk Management | Chapter 21 |
| Week 12 Beginning 23 May | International Corporate Finance | Chapter 22 |
| Week 13 Beginning 30 May | Revision | Not Applicable |