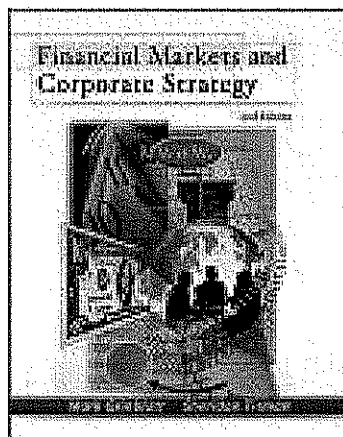




ACCG 353
CORPORATE FINANCIAL DESIGN

UNIT OUTLINE
2nd SEMESTER 2004



DEPARTMENT OF ACCOUNTING & FINANCE
DIVISION OF ECONOMIC & FINANCIAL STUDIES

Unit description

Most students who take ACCG 353 Corporate Financial Design will recently have completed ACCG 253 Financial Management. In ACCG 253 students were introduced to the fundamentals of Corporate Finance. These fundamentals were examined within a static framework, assuming that a number of key variables are constant. In ACCG 353 these assumptions about key variables are relaxed so that investment and financing decisions can be examined within a dynamic framework.

In a dynamic environment the decision to invest in a project is much more complex than a simple NPV analysis makes it appear. For example, a company might invest in a negative NPV project if that investment provides it with a strategic advantage when future opportunities arise. In modern corporate finance the search for, and creation of, opportunities is leading to a mix of both quantitative and strategic analyses.

ACCG 353 challenges the student to consider a comprehensive set of factors that influence organisations in their payout, investment and finance decisions. The decision might reflect the personality of a CEO, the composition of competitors, expectations about fluctuations in the economy etc. etc. In this sense, students in ACCG 353 need to be able to appreciate the differences between theory and practice. Further, students are encouraged to read academic and professional finance journals and the business sections in the daily press. For example, the Australian Financial Review (AFR) is a rich source of information on factors that influence payout, investment and finance decisions of corporations.

Learning Outcomes

By the end of ACCG 353 students should understand the following corporate finance issues:

- The theoretical and practical implications of the multi-faceted nature of risk.
- Combining different facets of risk in derivatives and options, and the pricing of these instruments.
- The different issues (including flexibility) to be considered, and the different approaches (including real options) available, in valuing risky projects.
- Dividends and share repurchases as strategic decisions.
- Capital structure within a dynamic framework.
- The issues and methods involved in assessing the costs and benefits of mergers and acquisitions.
- The motivation for, and methods of, risk management – including analysis from a governance perspective.

Further, the course should help students develop the following generic skills:

- Familiarity with the language of finance.
- Ability to think at the abstract level required in finance.
- Capacity to select/modify techniques to overcome limited information.
- Ability to solve problems and express solutions within Excel.
- Capacity to critically comment on events reported in the financial press.

Pre-requisite

The pre-requisite for this unit is ACCG 253 Financial Management with a minimum of a "Pass" grade.

Faculty

Dr. Edward Watts	[EW]	Lecturer-in-charge	Ph: 9850 8533
Dr. Mehdi Sadeghi	[MS]	Lecturer	Ph: 9850 8527
Mr. Toomas Truuvert	[TT]	Lecturer	Ph: 9850 8524
Ms Roslinda Lim		Unit Administrator / Tutor	Ph: 9850 9173

Consultation times will be posted on WebCT. Consultation is only available for clarification of material covered in lectures and tutorials, and where the student has attended the relevant session.

Assessment

Tutorial attendance and participation	5%
Tutorial exercises	5%
Major assignment	15%
During-semester test	10%
End-of-semester (final) examination	65%

To achieve a minimum of a pass grade in the unit, students need successfully to:

- attend and participate in weekly tutorials
- attempt assigned tutorial exercises (three sets collected at random)
- attempt the major assignment
- attempt the during-semester test
- attempt the end-of-semester (final) examination and achieve a minimum of a pass grade.

Under the current grading system, a standardised numerical grade (SNG) will be awarded together with a band grade HD, D, Cr, P, PC, or F.

The SNG is purely a rank, and is NOT the weighted aggregate of the raw marks for the above assessment components. It is rather a detailed grade that is chosen from 0 to 100 based on other criteria as well as the raw marks. An SNG of, say, 62 or 63 does NOT mean that the student's aggregate mark is one or two marks below the threshold for a Cr. The mark informs the student that he/she performed better than most other students in the P band but was not quite of the quality needed for a Cr.

Lectures

Lectures are conducted in two strands:

- | | | | |
|----------------------------------|----------|---------------|------------|
| <input type="checkbox"/> Evening | Monday | 18:00 - 20:00 | W5A: Price |
| <input type="checkbox"/> Day | Thursday | 13:00 - 15:00 | X5B: T1 |

Prescribed text

Grinblatt, M. & S. Titman (2002) Financial Markets and Corporate Strategy. (2nd ed) New York: McGraw Hill.

All other readings will be available in PDF form through WebCT and in hardcopy through ERIC.

Unit WebCT site

All course materials and announcements will be available through the unit's WebCT site at <http://online.mq.edu.au/public/ACCG353>. General announcements, information and replies to frequently asked questions will be posted under an Announcements icon on the homepage. Therefore, it is essential students access the unit site regularly. Students with login difficulties should contact the IT support staff on Level 1 of the library. Lecture notes and solutions to tutorial exercises will be available through a staged release.

Tutorials and tutorial exercises

Most students were assigned a tutorial at enrolment. All tutorial changes and allocations must be done through the central enrolment system, available to students in the E7B Courtyard in Weeks 1 and 2.

Students enrolled in the subject, but not allocated to tutorials will be automatically assigned to a class at the end of Week 2. Students will not be permitted to write their name on the bottom of the roll.

It is each student's responsibility to find out the time and location of their tutorial. This information will be available on the unit website. Tutorial groups meet once a week commencing the 2nd week of the semester.

During semester if a student can not attend their allocated tutorial in one week and attends an alternative tutorial then in order to get credit for his/her attendance then the student must:

- 1) get his/her work signed by the tutor of the tutorial attended; and
- 2) present this to their allocated tutor by the next week.

Signed tutorial exercises that are more than two weeks old may only be accepted at the tutor's discretion. Students that regularly attend alternative tutorials, instead of their assigned class, should not expect a high mark for the tutorial based

assessment components.

All assigned tutorial exercises are to be completed weekly, prior to attendance in the tutorial. Exercises are designed to reinforce the lecture material and to encourage students to apply new knowledge to problems of a practical nature.

Tutorial exercises will be collected in tutorials on three separate occasions that are selected at random by the tutor. The two "best" weeks will be used to determine the mark /5 for tutorial exercises. Work submitted for assessment will be marked and returned to students within a week of collection.

During-semester test

Details relating to the during-semester test will be released via WebCT. The test will be online, one hour in length, and will be of a multiple choice format covering the topics up to and including "Capital Structure II". The online test will be on **Saturday the 23rd of October, at 10am +- 20 minutes.**

Major assignment

Details of the major assignment will be released via WebCT. The assignment will be due **by 5pm on Friday 15th of October** at ERIC. Assignments handed in late will lose 20% for each day late.

Policy on cheating and plagiarism

The University policy on cheating and plagiarism applies in this unit. The policy can be accessed through the University's home page. Students are advised to read the policy, which can be located at:

<http://www.student.mq.edu.au/plagiarism/>

End-of-semester (final) examination

The end-of-semester (final) examination is of three-hour duration. Details will be posted on the unit's WebCT site notice board by the 11th week of the semester. All lecture topics, all tutorial exercises and the major assignment are examinable.

Unless prevented by illness, misadventure or unavoidable disruption students must attempt the end-of-semester exam at the time scheduled by the University. Special consideration will be given only to students who throughout the semester have achieved a satisfactory progress in all other assessment components.

Special consideration requests will only be considered if the student has correctly followed the prescribed application process, which is explained here:

<http://www.reg.mq.edu.au/Forms/APSCons.pdf>

Schedule of Topics

Date	Week	Lecture Topic	Other Readings	Text Readings	Practice Exercises	Tutorial Exercises
2 nd Aug	1 [EW]	"Course Themes"				
9 th	2 [MS]	"Factor Models and the Arbitrage Pricing Theory"		Ch. 6		Stonier "The Change Process", in Real Options (2001). Ex 1-7.
16 th	3 [MS]	"Pricing Derivatives"		Ch. 7	6.2, 6.4	6.3, 6.5, 6.6, 6.7, 6.11 & 6.12
23 rd	4 [MS]	"Options"		Ch. 8	7.1, 7.5, 7.8, 7.10	7.2, 7.7, 7.9, 7.11 & 7.12
30 th	5 [EW]	"Valuing Risky Projects"		Ch. 11, 12	8.1, 8.4, 8.9, 8.16	8.3, 8.7, 8.10, 8.11, 8.13 & 8.15
6 th Sep	6 [EW]	"Valuing the Effect of Taxes"		Ch. 12, 13	11.1, 11.10 – 11.14, 11.15	11.2-11.9, 12.3
13 th	7 [TT]	"Mergers and Acquisitions"	Smit (2001), Acquisition strategies as option games. JACF 14(2): 79-89	Ch. 20	12.2, 12.5, 12.10, 13.1-13.7	12.9, 12.10, 13.9, 13.13, 13.14

Date	Week	Lecture Topic	Pre Readings	Text Readings	Practice Exercises	Tutorial Exercises
4 th Oct	8** [TT]	"Capital Structure I"	Chew (2001), Capital structure and stock repurchase, JACF, 14(1): 8-41	Ch. 15	20.1, 20.2, 20.4	From Bierman & Fernandez (1998), Ex. 17.1, 17.3 and 17.5
11 th	9 [TT]	"Capital Structure II"	Graham & Harvey (2002), How do CFO's make capital budgeting and capital structure decisions? JACF. 15(1): 8-23.	Ch. 17	15.2, 15.6, 15.8	The Marriott Corporation (Cost of capital).
18 th	10 [TT]	"Incentives and Information"	Gillian (2001), Option based compensation: panacea or Pandora's box? JACF, 15(3): 21-33	Ch. 19	17.4, 17.5, 17.12	The Marriott Corporation (Cost of capital – continued).
25 th	11 [EW]	"Risk Management and Governance"	The NAB media extracts	Ch.21	19.6, 19.8, 19.10	Stone Container Corporation (Equity financing)
1 st Nov	12 [EW]	"The Practice of Hedging"		Ch.22	21.1, 21.5	21.3, 21.6, 21.8, The NAB ex.
8 th	13 [EW]	"Revision"			22.2, 22.7, 22.9	22.4, 22.5, 22.8, 22.10

** The Monday tutorials and lecture on the October long weekend will be transferred to the Friday of that week. Students are requested to refer to the unit WebCT site for announcements on any changes to the above.