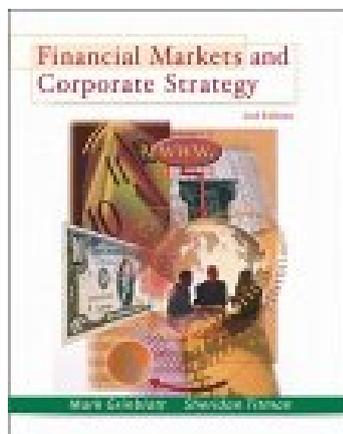




**ACCG 353
CORPORATE FINANCIAL DESIGN**

**UNIT OUTLINE
2nd SEMESTER 2005**



**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.
- Issues in determining capital structure.
- Theory and methods 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%
Tutorial presentations	5%
Major assignment	10%
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
- complete assigned tutorial exercises (three sets collected at random)
- complete the major assignment
- complete the during-semester test
- complete the end-of-semester (final) examination and achieve a minimum of 40% in the final exam..

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:

□ Evening	Monday	18:00 - 20:00	W5A: T2
□ 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, tutorial exercises, and tutorial presentations

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. Tutorial groups meet once a week commencing the 2nd week of the semester. Students lose 1 mark for each tutorial missed.

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.

Tutorial Exercises

In the past students have often commented that for many of the tutorial questions they don't know how to begin in providing a solution. Once they see the solution in class then they can then understand what the question was asking. However, they feel that if they were given a similar question say in the final exam, then they might not be able to do it. This comment is supported by exam performance, where many students might not correctly answer a question which could be identical to one of the tutorial questions.

Solving a problem in finance often involves the skill of choosing between alternative methods. This skill might draw on several different areas of knowledge within finance.

In order to develop this skill this semester students will be provided with the solution to selected questions. What then should student's tutorial work look like – there is no point in simply copying the suggested solution. The tutorial work for a question where the solution has been provided should consist of sub-headings similar to the following:

- What are the key terms, relationships, and variables provided in the question?
- What alternative methods first come to mind when thinking about the problem, and why do you reject those methods.
- In order to answer the question what theoretical knowledge do you need to have.
- What logical insights are involved in answering the question.
- What formula are required in solving the question.
- Which section of the text provides insights about the question.
- If appropriate, you might show the layout of the solution in excel.

All assigned tutorial exercises are to be completed weekly, prior to attendance in the tutorial. Corrections or annotations made during class should be made in a different coloured pen. 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.

Tutorial Presentations

In the first tutorial students will be placed into 10 groups. The number of students in these groups will depend on the number of people in the tutorial. The number of students in a group will usually vary between 2 and 3. One group will present each week. This is a significant presentation – and should take approximately 30 minutes. The questions to be presented are listed in the Schedule of Topics. Solutions are available for questions to be presented. The presenters should

assume that the audience has not read or attempted the questions. In discussing the questions and solutions the presenters should also emphasise the sub-headings identified in the previous sub-section. Presenters should use overheads and should provide the tutor with a hard copy of the overheads.

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 I". The online test will be on **Saturday the 22nd of October, at 10am +- 20 minutes.**

Major assignment

Details of the major assignment will be released via WebCT. The assignment will be due **by 8pm on Thursday 6th 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	Text Readings	Presentation Exercises	Tutorial Exercises
1 st Aug	1 [EW]	"Course Themes"			
8 th	2 [EW]	"Valuing Risky Projects"	Ch. 11, 12		Stonier "The Change Process", in Real Options (2001). Ex 1-7.
15 th	3 [EW]	"Valuing the Effect of Taxes"	Ch. 12, 13	11.1, 11.2 – 11.8, 11.9	12.4, 12.6
22 nd	4 [MS]	"Factor Models and the Arbitrage Pricing Theory"	Ch. 6	12.2, 12.5, 12.10	13.9, 13.13, 13.14
29 th	5 [MS]	"Pricing Derivatives"	Ch. 7	6.3, 6.4, 6.5, 6.6	6.7, 6.11, 6.12
5 th Sep	6 [MS]	"Options"	Ch. 8	7.1, 7.2, 7.5, 7.7	7.9, 7.10, 7.11
12 th	7 [MS]	"Risk Management and Governance"	Ch.21	8.1, 8.3, 8.7, 8.9	8.10, 8.11, 8.15

SEMESTER BREAK

Date	Week	Lecture Topic	Text Readings	Presentation Exercises	Tutorial Exercises
4 th Oct	8 [MS]	"The Practice of Hedging"	Ch.22	TBA	TBA
10 th	9 [TT]	"Capital Structure I"	Ch. 15	22.2, 22.5, 22.7, 22.8	22.9, 22.10
17 th	10 [TT]	"Capital Structure II"	Ch. 17	15.2, 15.6, 15.8	XYX Firm + Universal Sour Candy Co. ³
24 th	11 [TT]	"Mergers and Acquisitions I"	Ch. 6 ¹ Ch. 20	17.4, 17.5, 7.12	South-western Electric Co. ³
31 st	12 [TT]	"Mergers and Acquisitions II"	Ch. 9 ²	20.1, 20.2, 20.4	Watro PC Co. ³
7 th Nov	13 [TT]	"Revision"		9.8, 9.9, 9.10, 9.11 ²	Jordon Corp. ³

1. Theories of mergers and tender offers" Chapter 6 in Weston, J.F., Mitchell, M.L. and J.H. Mulherin (2004). Takeovers, restructuring and corporate governance. (4th Int'l ed.). Pearson Prentice Hall: Upper Saddle River, N.J. Available from week 7 only through ERIC.

2. "Alternative approaches to valuation" Chapter 9 in Weston et.al. (2004). Available from week 7 only through ERIC.

3. Copeland, T. E., Weston, J.F. and K. Shastri (2005). Financial Theory and Corporate Policy. (4th Int'l ed.). Pearson Addison Wesley: Boston, M.A. Available from week 7 both through ERIC and WebCT.