AFIN252
Applied Financial Analysis and Management

Semester 1, 2012

Department of Applied Finance
and Actuarial Studies
Year and Semester: Semester 1, 2012

Unit convenor: Dr Lindsay Stubbs

Pre-requisites:
Entry to AFIN252 requires you to have completed the following pre-requisites:

- ACCG100 or ACCG105 or ACCG106;
  and
- ECON111 or BBA103;
  and
- STAT170 or STAT171;
  and
- ACST101;
  and
- 24 credit points or a GPA of 2.25 or higher.

Some tutorial questions in the early weeks of the course revise important concepts from introductory finance. Make a special effort to complete all assigned tutorial problems if you found any of the pre-requisites difficult.

Co-requisites: Nil

Not to Count for Credit With: AFIN253 Financial Management

Credit points: 3 credit points

Students in this unit should read this unit guide 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
This unit provides an introduction to the fundamental principles of finance and forms a gateway to more advanced studies in asset pricing, derivative securities, portfolio management and corporate finance. After completing this unit, students have foundation knowledge in investment analysis, risk and return, capital budgeting, corporate financial policy such as financing decisions and dividend policy, derivatives securities and no arbitrage valuation. The unit promotes graduate capabilities in critical, analytical and integrative thinking; and problem solving and research within the context of finance. While this unit has a similar coverage to AFIN253 Financial Management, it provides a more rigorous approach and requires a higher level of quantitative ability.
TEACHING STAFF

Unit Convenor
Dr Lindsay Stubbs
Lecturer
Department of Applied Finance and Actuarial Studies
Building E4A, Room 526.
Phone: (02) 9850 8538.
Email: afin252@mq.edu.au

Deputy Unit Convenor
Ms Yunping Chen
Department of Applied Finance and Actuarial Studies
Email: afin252@mq.edu.au

Sessional Staff
Miss Yunping Chen
Mr Patrick Huang
Dr James McCulloch
Miss Chin Yee Ng
Mrs Veronica Norman
Mrs Lydia Walker
Ms Ai Ling Zhou

CONTACTING STAFF

Consultation times

Unit Convenor
Dr Lindsay Stubbs
Time: Tuesday 9:00am – 11:00am by appointment.
Where: Building E4A, Room 526.

Deputy Unit Convenor
Miss Yunping Chen
Time: Monday 2:00pm – 4:00pm or by appointment.
Where: Building E4B, Room 106.

Sessional Staff
Sessional staff are available for consultation from Week 2 onwards (the week beginning 5th March). Sessional staff will normally be available for two hours per week at a specific time. A schedule of consultation hours is available on iLearn, the on-line teaching facility. Alternatively, you may check at BESS (Business and Economics Students Services) in Building E4B.

You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours.
Staff will not conduct any consultations by email. You may, however, phone staff during their consultation hours.

In order to gain access to staff located on levels 1, 2 and 3 of building E4A during their consultation hours please ring the staff member from the phones available in the lobby (phone numbers of relevant staff members will be provided on iLearn and are available next to the phones).

**Other ways of contacting staff**
If you are unable to see staff during consultation times, please send an email to the unit’s email address, afin252@mq.edu.au.

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

**CLASSES**
- Each week there will be a two hour lecture and a one hour tutorial. You should attend all lectures and tutorials. There are no tutorials in Week 1. Weekly tutorials cover material based on the lecture of the previous week.
- Solutions to tutorial questions (both from the text book and the Other Tutorial Problems) will be posted on iLearn at the end of each week.
- The timetable for classes can be found on the University web-site at: [http://www.timetables.mq.edu.au/](http://www.timetables.mq.edu.au/).
- Your attendance at tutorials is very important. Attendance records will be kept.

**PRIZES**
- There is a Macquarie University Applied Finance and Actuarial Studies Prize for the best student in this subject. Please see the following web-site:
  - [http://www.businessandeconomics.mq.edu.au/undergraduate_degrees/prizes_scholarships](http://www.businessandeconomics.mq.edu.au/undergraduate_degrees/prizes_scholarships)

**REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS**
- The prescribed text is:
- **Publisher:** McGraw-Hill Irwin, 2011.
- **ISBN:** 9780070284951 (pbk.)
- The text can be purchased from the Macquarie University Co-op Bookshop, and is available in the Macquarie University Library.
TECHNOLOGY USED AND REQUIRED

When you purchase the text, you will have access to McGraw-Hill web resources, called Connect Plus.

During the semester, you may be asked to access web-sites of certain Australian companies and also the web-site for the Australian Securities Exchange at www.asx.com.au.

Calculators: Financial calculators may be used in any examination for this unit. A financial calculator is not essential, as a scientific one should meet all your needs. You will not be asked to calculate Internal Rate of Return (IRR) in an examination. Financial calculators are able to do this. Only non-programmable calculators are allowed in an examination.

If you choose to buy a financial calculator and are planning to enrol in the Chartered Financial Analysts (CFA) course after you graduate from Macquarie University, you may wish to purchase a financial calculator that meets CFA examination requirements. For specific requirements, see the CFA Institute’s web-site, www.cfainstitute.org. The two CFA-approved calculators are:

- Texas Instruments BA II Plus (including BA II Plus Professional);
- Hewlett Packard 12C (including Hewlett Packard 12C Platinum).

Another recommended calculator is the Hewlett Packard HP17BII or HP17BII+. This is used in Macquarie University’s Master of Applied Finance program.

UNIT WEB PAGE

- Course material is available on the learning management system, iLearn.
- The web page for this unit can be found at: https://ilearn.mq.edu.au/login/MQ/

LEARNING OUTCOMES

The learning outcomes of this unit are:

1. A broad introduction to applied financial analysis and management.
2. An understanding of some of the key concepts of modern finance.
3. An ability to apply finance theory to simple real-life problems.
4. An ability to use the accounts of listed Australian companies and calculate key market-related figures.

Additional specific learning outcomes for each topic are set out at the start of each topic’s lecture notes (i.e. the PowerPoint slides that are available on iLearn).
GRADUATE CAPABILITIES

In addition to the discipline-based learning objectives, all academic programs at Macquarie University 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. Discipline Specific Knowledge and Skills, such as:
   - An understanding of the key terms in each of the topics.
   - An ability to discuss the key theoretical underpinnings of each topic.
   - An ability to apply finance theory to real-life practical problems.
   - An ability to connect theory and practice.
2. Critical, Analytical and Integrative Thinking.
4. Effective Communication.
5. Socially and Environmentally Responsible.
7. Commitment to Continuous Learning.

TEACHING AND LEARNING ACTIVITIES

Lecture and Tutorials
Each week there will be a two hour lecture and a one hour tutorial. In the tutorial, the tutor will go through some of the questions set for that week. They will be based on the lecture material for the preceding week. It is important that you attempt the tutorial problems before you come to class.

What is expected of students
To achieve the best possible results in this unit, students should:

- Attend all lectures.
- Attend all tutorials and do assigned problems before the class.
- Read the assigned chapters of the text book.
- Download a copy of each lecture’s PowerPoint slides which will be made available before each lecture. Make sure these are brought to lectures.
- Most of the tutorial problems will be drawn from the text book. There will be supplementary tutorial problems placed on iLearn requiring you to find out certain information about Australian companies and answer questions relating to what you have found.
### Topics to be covered

#### Lectures

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Chapter</th>
<th>Title of chapter</th>
<th>Week Beginning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Introduction to corporate finance</td>
<td>27 February</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>6</td>
<td>Valuing shares and bonds</td>
<td>5 March</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>7</td>
<td>Net present value and other investment criteria</td>
<td>12 March</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>8</td>
<td>Making capital investment decisions</td>
<td>19 March</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>10</td>
<td>Lessons from capital market history</td>
<td>26 March</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>12</td>
<td>Current investment decisions</td>
<td>2 April</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
<td>11</td>
<td>Return, risk and the Security Market Line</td>
<td>23 April</td>
</tr>
<tr>
<td>8</td>
<td>8</td>
<td>17</td>
<td>Shareholder value and the cost of capital</td>
<td>30 April</td>
</tr>
<tr>
<td>9</td>
<td>9</td>
<td>18</td>
<td>Rewarding shareholders: setting dividend policy</td>
<td>7 May</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>19</td>
<td>Financial leverage and capital structure policy</td>
<td>14 May</td>
</tr>
<tr>
<td>11</td>
<td>11</td>
<td>20</td>
<td>Derivative Securities - Options</td>
<td>21 May</td>
</tr>
<tr>
<td>12</td>
<td>12</td>
<td>20</td>
<td>Derivative Securities - Futures</td>
<td>28 May</td>
</tr>
<tr>
<td>13</td>
<td>12</td>
<td></td>
<td>Revision</td>
<td>4 June</td>
</tr>
</tbody>
</table>

**Tutorial:** Please note that tutorials commence in the second week of semester, i.e. the week beginning 5th March 2012.

The tutorials will cover two types of problems:

1. Ones drawn from the textbook (see table below).
2. Ones posted on iLearn prior to each week. These will be in the tutorial folders and will be mostly former examination questions.

Both sets of questions are equally important.
<table>
<thead>
<tr>
<th>Tutorial</th>
<th>Chapter</th>
<th>Week Beginning</th>
<th>Questions and Problems from the Back of the Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>5 March</td>
<td>3 4 7 12 14 15</td>
</tr>
<tr>
<td>2</td>
<td>6</td>
<td>12 March</td>
<td>7 8 11 12 15 18 23</td>
</tr>
<tr>
<td>3</td>
<td>7</td>
<td>19 March</td>
<td>1 3 11 13 15 19 21</td>
</tr>
<tr>
<td>4</td>
<td>8</td>
<td>26 March</td>
<td>1 6 7 9 12 14 20</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
<td>2 April</td>
<td>1 2 4 7 19 22</td>
</tr>
<tr>
<td>6</td>
<td>12</td>
<td>23 April</td>
<td>1 2 3 4 7 8 9 15</td>
</tr>
<tr>
<td>7</td>
<td>11</td>
<td>30 April</td>
<td>1 2 5 7 14 15 17</td>
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<tr>
<td>8</td>
<td>17</td>
<td>7 May</td>
<td>4 7 9 14 16 18</td>
</tr>
<tr>
<td>9</td>
<td>18</td>
<td>14 May</td>
<td>2 9 10 11 12 18 21 23</td>
</tr>
<tr>
<td>10</td>
<td>19</td>
<td>21 May</td>
<td>1 2 3 8 13 14 17</td>
</tr>
<tr>
<td>11</td>
<td>20</td>
<td>28 May</td>
<td>2 4 6 8</td>
</tr>
<tr>
<td>12</td>
<td>20</td>
<td>4 June</td>
<td>26 28</td>
</tr>
</tbody>
</table>

It is unlikely that tutors will be able to cover all questions in each class. The tutorial problems posted on iLearn will often ask you to seek out information on the internet about certain Australian companies and to perform some finance-related calculations. These problems are important, as their purpose is to give some real-life problems relating to the material covered in this course.

The assessment for this unit (Diagnostic Test, Mid-Semester Test and Final Examination) may have questions based on material from listed companies. A Resource Pack will be provided in test/examination if needed (e.g. extracts from companies’ annual reports).

**Research and Practice**

This unit gives you opportunities to conduct your own research into some companies listed on the Australian Securities Exchange (ASX), showing you how to find key information from the companies’ accounts and then to apply this in certain calculations.

**Relationship between Assessment and Learning Outcomes**

**Assessment**

There will be three items of assessment, as follows:

**(a) Diagnostic test (5%)**

A diagnostic test will be held on **Saturday 24\textsuperscript{th} March 2012**. Topics 1 to 3 will be examined in this test. If you miss this test, there is no supplementary test. A mark for this Diagnostic-Test will calculated based on the mark you achieve in the Final Examination, provided you provide proper documentation (e.g. a medical certificate). Please lodge a Request for Special Consideration by the required date.
The purpose is to give you some **diagnostic feedback** on your performance in the unit.

Students who are deemed to be at risk by the tutor will be counselled by the tutor on what actions they need to undertake.

**b) Essay (20%).**

Students are required to write an essay. The topic for the essay will be posted on iLearn. The due date is Monday 2\textsuperscript{nd} April 2012 at 5:00pm. Essays must be submitted in hard-copy form at BESS. Late essays will incur a penalty, and essays submitted after 5:00pm Thursday 5\textsuperscript{th} April 2012 will be given a score of zero. Late essays will be penalised 4 marks per day. For example, if the essay is submitted 2 days late and receives a raw mark of 18/20, this will be reduced by 8 marks to 10/20.

**c) Mid-semester Test (20%).**

A mid-semester examination will be held on Tuesday 10\textsuperscript{th} April 2012. If you miss this test, there is no supplementary test. A mark for the Mid-Semester Test will be calculated based on the mark you achieve in the Final Examination, provided you provide proper documentation (e.g. a medical certificate). Please lodge a Request for Special Consideration by the required date.

The mid-semester test will cover Topics 1 to 5 inclusive. It will be a closed book exam. Financial calculators are permitted. Programmable calculators may not be used. You must write your tutor’s name, time of tutorial and number of tutorial on the front of your examination paper.

**c) Final Examination (55%)**

The final examination will be held in the formal examination period at the end of the semester. It will be a three hour examination, with ten minutes reading time.

The final examination will cover all topics covered in the unit, with an emphasis on Topics 6 to 12 (i.e. the ones not covered in the mid-semester examination). It will be a closed book examination. Financial calculators are permitted. Programmable calculators may not be used.

The learning outcomes being assessed are:

1. A broad introduction to applied financial analysis and management.
2. An understanding of some of the key concepts of modern finance.
3. An ability to apply finance theory to simple real-life problems.
4. An ability to take the accounts of listed Australian companies and calculate key market-related figures.

The graduate capabilities being assessed are:

1. Discipline Specific Knowledge and Skills, such as:
• An understanding of the key terms in each of the topics.
• An ability to discuss the key theoretical underpinnings of each topic.
• An ability to apply finance theory to real-life practical problems.
• An ability to connect theory and practice.

2. Critical, Analytical and Integrative Thinking.
4. Effective Communication.
5. Socially and Environmentally Responsible.

<table>
<thead>
<tr>
<th>Assessment Task 1</th>
<th>Assessment Task 2</th>
<th>Assessment Task 3</th>
<th>Assessment Task 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title/Name</td>
<td>Diagnostic Test</td>
<td>Essay</td>
<td>Mid-Semester Test</td>
</tr>
<tr>
<td>Description</td>
<td>Diagnostic Test covering material in Topics 1 to 3.</td>
<td>Essay.</td>
<td>A Mid-semester Test covering Topics 1 to 5.</td>
</tr>
<tr>
<td>Due date</td>
<td>To be held on Saturday 24th March 2012.</td>
<td>Monday 2nd April 2012 at 5:00pm.</td>
<td>Tuesday 10th April 2012.</td>
</tr>
<tr>
<td>% Weighting</td>
<td>5%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Grading method</td>
<td>A number of multiple choice questions.</td>
<td>A mark out of 20, together with written comments by the marker.</td>
<td>A combination of multiple choice questions and full response questions.</td>
</tr>
<tr>
<td>Feedback</td>
<td>Marks will be posted on iLearn.</td>
<td>Marks will be posted on iLearn, and the essay with marker’s comments will be returned to the student.</td>
<td>Marks will be posted on iLearn.</td>
</tr>
<tr>
<td>Estimated student workload</td>
<td>15 hours per week</td>
<td>15 hours per week</td>
<td>15 hours per week</td>
</tr>
<tr>
<td>Learning outcomes assessed</td>
<td>1 to 4</td>
<td>1 to 4</td>
<td>1 to 4</td>
</tr>
<tr>
<td>Graduate capabilities assessed</td>
<td>1, 2, 3, 5.</td>
<td>1 to 5</td>
<td>1 to 5</td>
</tr>
</tbody>
</table>

Examinations

A final examination is included as an assessment task for this unit to provide assurance that:

i) the product belongs to the student; and
ii) the student has attained the knowledge and skills tested in the examination.

A three hour final examination for this unit will be held during the University Examination period. The final examination will cover all topics covered in the unit. It
will be a closed book examination. Financial calculators are permitted. Programmable calculators may not be used.

The University Examination period in First Half Year 2012 from Tuesday 12th June 2012 to Friday 29th June 2012.

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. Please see http://exams.mq.edu.au.

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.

Tuesday

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.

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.

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.
Grades

Macquarie University uses the following grades in coursework units of study:

HD - High Distinction
D - Distinction
CR - Credit
P - Pass
F - Fail

All final grades are determined by a grading committee and are not the sole responsibility of the Unit Convenor.

Macquarie University’s Academic Senate has a set of guidelines on the distribution of grades across the range from Fail to High Distinction. Your final result will include one of these grades plus a Standardised Numerical Grade (SNG).

The Standardised Numerical Grade (SNG) is not a summation of the individual assessment components.

To be awarded a specific grade, students are required to perform at an equivalent standard in the final examination and their overall assessment marks in the unit.

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at: http://www.mq.edu.au/policy/docs/grading/policy.html.

Grading Appeals and Final Examination Script Viewing

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.


Special Consideration

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at: http://www.mq.edu.au/policy/docs/special_consideration/policy.html.
Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at [http://www.student.mq.edu.au](http://www.student.mq.edu.au).

Students can also enquire at BESS in Building E4B about what academic student services are available. Students are strongly urged to attend Peer Assisted Learning (PAL) classes to supplement their learning in lectures, tutorials and self-study (e.g. reading the text book).

**IT Conditions of Use**

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.