FINS5514
Capital Budgeting and Financing Decisions

Course Outline
Semester 2, 2015

Part A: Course-Specific Information
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PART A: COURSE-SPECIFIC INFORMATION

1 STAFF CONTACT DETAILS

Lecturer-in-charge: Dr Sian Owen
Room: UNSW Business School, Level 3, Room 343
Phone No: 9385 4412
Email: Sian.Owen@unsw.edu.au
Consultation Times - Monday 9am to 11am (or by prior appointment)

Lecturer: Ying Dou (Weeks 2 to 5)
Office: UNSW Business School, Level 3, Room 302
Email: ying.dou@unsw.edu.au
Consultation Times (Weeks 2 to 5) - Wednesday 2pm to 4pm (or by prior appointment)

Lecturer: Emma Zhang (Weeks 9 to 12)
Office: UNSW Business School, Level 3, Room 302
Email: jin.zhang@unsw.edu.au
Consultation Times (Weeks 9 to 12) - Monday 2pm to 4pm (or by prior appointment)

2 COURSE DETAILS

2.1 Teaching Times and Locations
Lectures start in Week 1 (to Week 12): The Times and Locations are:
   Section A: Monday 11am to 2pm, Mechanical Engineering 202
   Section B: Wednesday 11am to 2pm, Central Lecture Block 5
   Section C: Monday 6pm to 9pm, Webster Theatre A (F Hall A)

2.2 Units of Credit
The course is worth 6 units of credit.

2.3 Summary of Course
Capital budgeting and financial decisions are 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 co-requisite for FINS5514. It is the responsibility of each student to ensure that these criteria have 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 signaling 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.

The Course Learning Outcomes are what you should be able to DO by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

The Learning Outcomes in this course also help you to achieve some of the overall Program Learning Goals and Outcomes for all postgraduate coursework students in the Business School. Program Learning Goals are what we want you to BE or HAVE by the time you successfully complete your degree (e.g. ‘be an effective team player’). You demonstrate this by achieving specific Program Learning Outcomes - what you are able to DO by the end of your degree (e.g. ‘participate collaboratively and responsibly in teams’).

For more information on the Postgraduate Program Learning Goals and Outcomes, see Part B of the course outline.

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed (they may also be developed in tutorials and other activities):
Program Learning Goals and Outcomes | Course Learning Outcomes | Course Assessment Item
---|---|---
This course helps you to achieve the following learning goals for all Business postgraduate coursework students: | On successful completion of the course, you should be able to: | This learning outcome will be assessed in the following items:

1. **Knowledge**

   Understand the basic theories of corporate finance decision marking

   Apply current knowledge of corporate finance theories to business.

   - Tutorial Problems
   - Class Tests
   - Exam

2. **Critical thinking and problem solving**

   Use the standard models of capital budgeting, capital structure, dividend policy and restructuring to interpret and analyse real problems in corporate finance

   - Tutorial Problems
   - Class Tests
   - Exam

3a. **Written communication**

   Construct written work which is logically and professionally presented.

   - Class Tests
   - Exam

3b. **Oral communication**

   Communicate ideas in a succinct and clear manner.

   - Not specifically assessed.

4. **Teamwork**

   Work collaboratively to complete a task.

   - Not specifically assessed.

5a. **Ethical, social and environmental responsibility**

   Identify and assess ethical considerations in problems and real world examples in corporate finance

   - Not specifically assessed.

5b. **Social and cultural awareness**

   Not specifically addressed in this course.

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### 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.

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 and read the financial press for relevant current events
- work through the tutorial questions
- be ready to participate in class discussions

4 ASSESSMENT

4.1 Formal Requirements
In order to pass this course, you must:
- Achieve a composite mark of at least 50/100
- Make a satisfactory attempt at all assessment tasks

4.2 Assessment Details

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Weighting</th>
<th>Length</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Class Test 1</td>
<td>25%</td>
<td>1.5 hours</td>
<td>Week 6</td>
</tr>
<tr>
<td>2. Class Test 2</td>
<td>25%</td>
<td>1.5 hours</td>
<td>Week 12</td>
</tr>
<tr>
<td>3. Final exam</td>
<td>50%</td>
<td>2 hours</td>
<td>TBA</td>
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</tbody>
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• 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 (7 to 11). 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%.

Quality Assurance
The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential.
5 COURSE RESOURCES

Prescribed textbook


Other texts that students may find useful include:


Moodle

Moodle is used to disseminate lecture notes, tutorial problems and selected answers/solutions, assessment details, journal articles, and announcements. This is the only place where these resources can be accessed. Students should make appoint of checking this site regularly. The website for this course is on Moodle at: https://moodle.telt.unsw.edu.au/login/index.php

Calculators

Students will need to have 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://student.unsw.edu.au/exam-approved-calculators-and-computers

6 COURSE EVALUATION AND DEVELOPMENT

Each year we seek feedback from students and other stakeholder about the course 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 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.
# 7 COURSE SCHEDULE

## Lecture Schedule

Lectures start in Week 1 and finish in Week 12.

## LECTURE SCHEDULE

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Reference</th>
</tr>
</thead>
</table>
| Week 1     | Introduction to the Course and Agency Theory | RWJ Chapter 1  


Bigger than Enron :  

http://www.pbs.org/wgbh/pages/frontline/shows/regulation/

Friedman, H. and L. Friedman (2009),‘The Global Financial Crisis of 2008: What Went Wrong?’, Available at SSRN:  

http://ssrn.com/abstract=1356193

Money, power and Wall Street:  

http://www.pbs.org/wgbh/pages/frontline/money-power-wall-street/ |
| Week 2     | The Investment Decision I                | RWJ Chapters 5 & 6 |
| Week 3     | The Investment Decision II: Investment Criteria and Project Cash Flows | RWJ Chapter 9 & 10 |
| Week 4     | The Investment Decision III: Project Cash Flows II and Estimating Risk in Capital Budgeting | RWJ Chapter 10 & 11 |
| Week 5     | Cost of capital and Raising capital     | RWJ Chapter 14 & 15  

The Wall St fix:  

http://www.pbs.org/wgbh/pages/frontline/shows/wallstreet/  

Dotcon: :

<table>
<thead>
<tr>
<th>Week 6 31 August</th>
<th>Class Test 1</th>
</tr>
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<tbody>
<tr>
<td>Week 7 7 September</td>
<td>The Financing Decision I</td>
</tr>
<tr>
<td>Week 8 14 September</td>
<td>The Financing Decision II</td>
</tr>
<tr>
<td>Week 9 21 September</td>
<td>The Dividend Decision</td>
</tr>
</tbody>
</table>

- **Monday 5 Oct is a public holiday. No classes this week**

- **Mid-term break: Saturday 26 September - Monday 5 October inclusive**

<table>
<thead>
<tr>
<th>Week 10 5 October</th>
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<tbody>
<tr>
<td>The Restructuring Decision (Mergers and Acquisitions)</td>
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- **RWJ Chapter 26**

<table>
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<tr>
<th>Week 11 12 October</th>
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<tbody>
<tr>
<td>Class Test 2 Revision Lecture</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Week 13 26 October</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO LECTURES</td>
</tr>
</tbody>
</table>
PART B: KEY POLICIES, STUDENT RESPONSIBILITIES AND SUPPORT

8 PROGRAM LEARNING GOALS AND OUTCOMES

The Business School Program Learning Goals reflect what we want all students to BE or HAVE by the time they successfully complete their degree, regardless of their individual majors or specialisations. For example, we want all our graduates to HAVE a high level of business knowledge, and a sound awareness of ethical, social, cultural and environmental implications of business. As well, we want all our graduates to BE effective problem-solvers, communicators and team participants. These are our overall learning goals for you and are sought after by employers.

You can demonstrate your achievement of these goals by the specific outcomes you achieve by the end of your degree (e.g. be able to analyse and research business problems and propose well-justified solutions). Each course contributes to your development of two or more program learning goals/outcomes by providing opportunities for you to practise these skills and to be assessed and receive feedback.

Program Learning Goals for undergraduate and postgraduate students cover the same key areas (application of business knowledge, critical thinking, communication and teamwork, ethical, social and environmental responsibility), which are key goals for all Business students and essential for success in a globalised world. However, the specific outcomes reflect different expectations for these levels of study.

We strongly advise you to choose a range of courses which assist your development of these skills, e.g., courses assessing written and oral communication skills, and to keep a record of your achievements against the Program Learning Goals as part of your portfolio.

### Business Postgraduate Coursework Program Learning Goals and Outcomes

1. **Knowledge: Our graduates will have current disciplinary or interdisciplinary knowledge applicable in local and global contexts.**
   You should be able to identify and apply current knowledge of disciplinary or interdisciplinary theory and professional practice to business in local and global environments.

2. **Critical thinking and problem solving: Our graduates will have critical thinking and problem solving skills applicable to business and management practice or issues.**
   You should be able to identify, research and analyse complex issues and problems in business and/or management, and propose appropriate and well-justified solutions.

3. **Communication: Our graduates will be effective communicators in professional contexts.**
   You should be able to:
   - Produce written documents that communicate complex disciplinary ideas and information effectively for the intended audience and purpose, and
   - Produce oral presentations that communicate complex disciplinary ideas and information effectively for the intended audience and purpose.

4. **Teamwork: Our graduates will be effective team participants.**
   You should be able to participate collaboratively and responsibly in teams, and reflect on your own teamwork, and on the team’s processes and ability to achieve outcomes.

5. **Ethical, social and environmental responsibility: Our graduates will have a sound awareness of ethical, social, cultural and environmental implications of business issues and practice.**
   You should be able to:
   - Identify and assess ethical, environmental and/or sustainability considerations in business decision-making and practice, and
   - Consider social and cultural implications of business and/or management practice.
9 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: https://student.unsw.edu.au/plagiarism as well as the guidelines in the online ELISE tutorials for all new UNSW students: http://subjectguides.library.unsw.edu.au/elise

To see if you understand plagiarism, do this short quiz: https://student.unsw.edu.au/plagiarism-quiz

For information on how to acknowledge your sources and reference correctly, see: https://student.unsw.edu.au/harvard-referencing

For the Business School Harvard Referencing Guide, see the Business Referencing and Plagiarism webpage (Business >Students>Learning support> Resources>Referencing and plagiarism).

10 STUDENT RESPONSIBILITIES AND CONDUCT

Students are expected to be familiar with and adhere to university policies in relation to class attendance and general conduct and behaviour, including maintaining a safe, respectful environment; and to understand their obligations in relation to workload, assessment and keeping informed.

Information and policies on these topics can be found in UNSW Current Students 'Managing your Program' webpages: https://student.unsw.edu.au/program.

10.1 Workload

It is expected that you will spend at least nine to ten hours per week studying this course. This time should be made up of reading, research, working on exercises and problems, online activities 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.

We strongly encourage you to connect with your Moodle course websites in the first week of semester. Local and international research indicates that students who engage early and often with their course website are more likely to pass their course.

Information on expected workload: https://student.unsw.edu.au/uoc

10.2 Attendance

Your regular and punctual attendance at lectures and seminars is expected in this course. University regulations indicate that if students attend less than 80% of scheduled classes they may be refused final assessment. For more information, see: https://student.unsw.edu.au/attendance
10.3 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: https://student.unsw.edu.au/conduct

10.4 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 http://www.ohs.unsw.edu.au/.

10.5 Keeping Informed
You should take note of all announcements made in lectures, tutorials or on the course website. 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.

11 SPECIAL CONSIDERATION
You must submit all assignments and attend all examinations scheduled for your course. You should seek assistance early if you suffer illness or misadventure which affects your course progress.

General information on special consideration for undergraduate and postgraduate courses:
1. All applications for special consideration must be lodged online through myUNSW within 3 working days of the assessment (Log into myUNSW and go to My Student Profile tab > My Student Services > Online Services > Special Consideration). You will then need to submit the originals or certified copies of your completed Professional Authority form (pdf - download here) and other supporting documentation to Student Central. For more information, please study carefully in advance the instructions and conditions at: https://student.unsw.edu.au/special-consideration
2. Please note that documentation may be checked for authenticity and the submission of false documentation will be treated as academic misconduct. The School may ask to see the original or certified copy.
3. Applications will not be accepted by teaching staff. The lecturer-in-charge will be automatically notified when you lodge an online application for special consideration.
4. Decisions and recommendations are only made by lecturers-in-charge (or by the Faculty Panel in the case of UG final exam special considerations), not by tutors.
5. Applying for special consideration does not automatically mean that you will be granted a supplementary exam or other concession.
6. Special consideration requests do not allow lecturers-in-charge to award students additional marks.
Business School, and the School of Banking and Finance policy on requests for special consideration for Final Exams in undergraduate and postgraduate courses:
The lecturer-in-charge will need to be satisfied on each of the following before supporting a request for special consideration:

1. Does the medical certificate contain all relevant information? For a medical certificate to be accepted, the degree of illness, and impact on the student, must be stated by the medical practitioner (severe, moderate, mild). A certificate without this will not be valid.
2. Has the student performed satisfactorily in the other assessment items? Satisfactory performance would require at least 50% in each major assessment item specified in the Course outline and meeting the obligation to have attended 80% of tutorials or Lectures.
3. Does the student have a history of previous applications for special consideration? A history of previous applications may preclude a student from being granted special consideration.

Special consideration and the Final Exam and mid-session examinations in undergraduate and postgraduate Banking and Finance courses:
Applications for special consideration in relation to the final exam are considered by a Business School Faculty panel to which lecturers-in-charge provide their recommendations for each request. If the Faculty panel grants a special consideration request, this will entitle the student to sit a supplementary examination. No other form of consideration will be granted. The following procedures will apply:

1. Final Supplementary exams will be scheduled centrally and will be held approximately two weeks after the formal examination period. The dates for Business School supplementary exams for Semester 2, 2015 are:
   9th December – exams for all Schools except Accounting and Economics
   If a student lodges a special consideration for the final exam, they are stating they will be available on the above dates. **Supplementary exams will not be held at any other time.**
2. Where a student is granted a supplementary examination as a result of a request for special consideration, the student’s original exam (if completed) will be ignored and only the mark achieved in the supplementary examination will count towards the final grade. Failure to attend the supplementary exam will not entitle the student to have the original exam paper marked and may result in a zero mark for the final exam.

If you attend the regular final exam, you are extremely unlikely to be granted a supplementary exam. Hence if you are too ill to perform up to your normal standard in the regular final exam, you are strongly advised not to attend. However, granting of a supplementary exam in such cases is not automatic. You would still need to satisfy the criteria stated above.
12 STUDENT RESOURCES AND SUPPORT

The University and the Business School provide a wide range of support services for students, including:

- **Business School Education Development Unit (EDU)**
  
  [https://www.business.unsw.edu.au/students/resources/learning-support](https://www.business.unsw.edu.au/students/resources/learning-support)

  The EDU provides academic writing, study skills and maths support specifically for Business students. Services include workshops, online resources, and individual consultations. EDU Office: Level 1, Room 1033, Quadrangle Building. Phone: 9385 5584; Email: edu@unsw.edu.au.

- **Business Student Centre**
  
  [https://www.business.unsw.edu.au/students/resources/student-centre](https://www.business.unsw.edu.au/students/resources/student-centre)

  Provides advice and direction on all aspects of admission, enrolment and graduation. Office: Level 1, Room 1028 in the Quadrangle Building; Phone: 9385 3189.

- **Moodle eLearning Support**

  For online help using Moodle, go to: [https://student.unsw.edu.au/moodle-support](https://student.unsw.edu.au/moodle-support). For technical support, email: itservicecentre@unsw.edu.au; Phone: 9385 1333.

- **UNSW Learning Centre**

  [www.lc.unsw.edu.au](http://www.lc.unsw.edu.au)

  Provides academic skills support services, including workshops and resources, for all UNSW students. See website for details.

- **Library training and search support services**

  [http://info.library.unsw.edu.au/web/services/services.html](http://info.library.unsw.edu.au/web/services/services.html)

- **IT Service Centre**: Provides technical support for problems logging in to websites, downloading documents etc. [https://www.it.unsw.edu.au/students/index.html](https://www.it.unsw.edu.au/students/index.html) Office: UNSW Library Annexe (Ground floor). Ph: 9385 1333.

- **UNSW Counselling and Psychological Services**

  [https://student.unsw.edu.au/wellbeing](https://student.unsw.edu.au/wellbeing) Provides support and services if you need help with your personal life, getting your academic life back on track or just want to know how to stay safe, including free, confidential counselling. Office: Level 2, East Wing, Quadrangle Building; Phone: 9385 5418; Email: counselling@unsw.edu.au

- **Student Equity & Disabilities Unit**

  [http://www.studentequity.unsw.edu.au](http://www.studentequity.unsw.edu.au)

  Provides advice regarding equity and diversity issues, and support for students who have a disability or disadvantage that interferes with their learning. Office: Ground Floor, John Goodsell Building; Phone: 9385 4734; Email: seadu@unsw.edu.au