Fundamentals of Corporate Finance
GBAT9123

Course Overview
Semester 2 2014
Important Notice

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**Mid-term recess: Friday 26 September – Tuesday 7 October**

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<td>Week 14</td>
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<td>Examination week 2</td>
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*Monday 6 October is a public holiday in NSW*
Course staff

Course Coordinator

Each course has a Course Coordinator who is responsible for the academic leadership and overall academic integrity of the course. The Course Coordinator selects content and sets assessment tasks, and takes responsibility for specific academic and administrative issues related to the course when it is being offered. Course Coordinators oversee Class Facilitators and ensure that the ongoing standard of facilitation in the course is consistent with the quality requirements of the program.

The Course Coordinator is:

Associate Professor Toan Pham,
BEC Tas MCom PhD UNSW
email: t.pham@unsw.edu.au

Toan holds a BEc(Hons) from the University of Tasmania, and an MCom and PhD from UNSW. He is an Associate Professor at the UNSW Australian School of Business.

His teaching and research interests range from corporate finance to asset pricing and derivatives. He has published in international finance journals and presented papers at international conferences. He is a very experienced lecturer and thesis supervisor and has developed and taught a large number of courses at both the undergraduate and graduate levels.

In recent years, Toan was involved in designing and teaching Master of Finance and Master of Commerce programs in Beijing and Guangzhou in China, a joint venture between the UNSW then Faculty of Commerce and Economics (now the Australian School of Business) and leading universities in China.
Class Facilitator

The role of your Class Facilitator is to support the learning process by encouraging interaction amongst participants, providing direction in understanding the course content, assessing participant progress through the course and providing feedback on work submitted. MBT Class Facilitators comprise both academics and industry practitioners with relevant backgrounds.

You will be notified of your Class Facilitator’s name and contact details in your class confirmation email sent by MBT Student Services. Details will also be available in the gallery section of your online class for both face-to-face and distance classes.

Course author

The Course Coordinator, A/Professor Toan Pham, is the author of this course.
Course information

Aims

A critical component of the knowledge base of graduates in business or commerce is financial management, or the study of corporate finance. This course provides a modern, unified treatment of financial management which meets the professional requirements of Australian accounting bodies while providing a framework for understanding the important areas of financial decision-making.

Because it provides an overview of the role of finance in business activities, the course is particularly well suited to students not wishing to specialise in finance but for whom an understanding of the basics of financial decision-making is essential in developing their managerial skills. This course also forms a foundation of the assumed knowledge required for advanced courses in finance e.g. portfolio management of financial assets, options and futures and other derivatives, funds management etc.

Being an introductory course, we avoid much of the highly technical and often mathematical analysis that characterises the study of finance at more advanced levels.

Structure

Unit 1: Introduction to Corporate Finance, introduces the framework in which the finance discipline operates. We begin with a discussion of what constitutes the goals of an organisation, followed by the major decisions that must be made to achieve those goals. Some key concepts related to the business environment are also briefly explained and discussed.

Unit 2: Financial Mathematics: Time Value of Money. Here, we will compare business propositions or choices that involve future cash flows (incomes and/or costs) and use the techniques of financial mathematics to solve financial problems.

Unit 3: Bond and Stock Valuation. In this Unit, we will use the concepts and techniques developed in Unit 2 to value two main types of financial securities: fixed interest rate securities (bonds, debentures, notes, commercial papers, etc.) and equity shares.

Unit 4: NPV and other Investment Criteria, explains the techniques that can be used in the selection of investment projects. We survey a number of criteria by which investment projects are assessed and ranked in terms of their contributions to corporate value.
Unit 5: *Making Capital Investment Decisions*, provides the methodology for correct calculations of investment cash flows using accounting numbers in financial statements.

Unit 6: *Lessons from Capital Market History*, and Unit 7 *Returns, Risk and the Security Market Line*, provide a framework whereby risk can be quantified.

Unit 8: *Cost of Capital*, explores the cost of capital further, with a view to quantifying it for practical purposes.

Unit 9: *Dividends and Dividend Policy*, will help you to form an informed opinion on the relevance/irrelevance of dividend policy, and identify real-world factors that should be considered in making a dividend distribution decision.

Unit 10: *Financial Leverage and Capital Structure Policy*, continues the preceding theme. We further develop the financing decision by exploring the theoretical approach, and bring real world factors into play.

Unit 11: *Options and Corporate Securities: Basics, Valuation and Applications*, introduces a special type of derivatives called an ‘option’. We explore the valuation of option contracts; then recast some corporate financial problems in the option framework.

Unit 12: *Issuing Securities to the Public*, looks at how companies in Australia raise capital from the public.

**Learning outcomes**

When you have completed this course you should be able to:

- explain the basic concepts of corporate finance
- demonstrate application of these basic concepts to the primary areas of financial decision-making or financial management
- discuss how the interests of owners, debt holders and management of a firm may conflict and how those conflicts may influence financial decisions
- explain how financial securities are priced, and hence make an informed decision on investing (for yourself or your firm) in the stock market
- apply the basic tools and techniques of financial management to real-world financial situations such as valuation of securities and management of financial risk.
Skills and experience you will need

While previous knowledge of accounting is helpful, it is not a prerequisite, as the required accounting concepts will be explained and developed within the course. However, a minimal knowledge of quantitative methods is assumed. What is desirable, however, is that students feel comfortable with numbers because, after all, finance is about money and financial decisions are often supported by numbers and figures.

Formulae will be provided in the examination, and therefore no derivation and memorisation is required. If you have concerns about your background in these areas, please consult your Class Facilitator.

Resources

Prescribed textbook

Your prescribed textbook for the course is:

ISBN 9780071013185 (pbk.)

Help with terminology

You are directed to the Glossary of Terms at the end of your text. This will prove invaluable as you will be introduced to many financial terms in this course that may be new to you.

Important: Note that we do not cover all 18 chapters of the textbook. Moreover, in some of the assigned chapters, not all sections may be required reading for the topic. Read the Study Guide notes carefully to determine which sections or pages of the chapter are required reading, and therefore assessable.

Recommended reading

Books

If you would like to refer to a more advanced (but optional) textbook to enhance your understanding, the following texts could be of some assistance:

Journals and newspapers

If you are interested in extending your knowledge of finance beyond the assessable material for this course, you will find a financial newspaper useful supplementary reading; e.g. *Australian Financial Review* or *Wall Street Journal*.

Your Class Facilitator will refer regularly to current financial events (e.g. the global financial crisis) in order to illustrate how financial decisions are made and how finance theory is relevant to such critical decisions.

Reading the financial press and being able to analyse financial events should better equip you to make informed financial decisions.

Relationship to other courses in the MBT program

This course provides an overview of the role of finance in business activities. It is particularly well suited to students who don’t wish to specialise in finance but are seeking an understanding of the basics of financial decision-making to develop their managerial skills. It is equally suited to those who wish to embark on a specialisation in finance; in particular, funds management, investment banking, electronic trading in financial securities, financial planning or corporate financial consulting. It will also suit those who simply wish to gain a better understanding of financial decision-making in business entities.

While financial management is related to other areas of commerce (accounting and economics), it is not necessary to have a prior knowledge of these courses – this course can be taken as an independent unit. What is more important is a keen interest in financial matters and decisions either personally and/or in the context of the workplace – mortgage rates, investing in the stock/bond market, managed funds, real estate, initial public offerings of stocks, dividends/capital gains, risk management of financial assets etc.

As this course does not have a pre-requisite, it can be taken early in your MBT program.
Assessment

There are two group assignments and an examination for GBAT9123 Fundamentals of Corporate Finance. Note that assignments must be received by 9.30am Sydney time on the due dates.

<table>
<thead>
<tr>
<th>Participation</th>
<th>Throughout the semester</th>
<th>10%</th>
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<tbody>
<tr>
<td>Assignment 1</td>
<td>Friday 29 August 2014 (Week 5)</td>
<td>15%</td>
</tr>
<tr>
<td>Assignment 2</td>
<td>Tuesday 7 October 2014 (Week 10)</td>
<td>25%</td>
</tr>
<tr>
<td>Examination*</td>
<td>Thursday 6 November 2014 (10am if sitting on campus)</td>
<td>50%</td>
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*Examination is 2.5 hours; open book
Continual course improvement

MBT courses are revised each time they run, with updated course overviews and assessment tasks. All courses are reviewed and revised every two years and significant course updates are carried out in line with industry developments, and also when new editions of prescribed textbooks are published.

The MBT surveys students via the UNSW CATEI system each time a course is offered. The data collected provides anonymous feedback from students on the quality of course content and materials, class facilitation, student support services and the MBT Program in general. This student feedback is taken into account in all course revisions.

The Australian School of Business (ASB) also monitors the quality of students’ learning experiences in all its programs. A random selection of completed assessment tasks may be used for quality-assurance purposes. This information will be aggregated and used:

• to determine the extent to which program learning goals are being achieved for accreditation purposes
• to improve the quality of ASB programs.

All material used will be treated as confidential and these processes will have no bearing on course grades.

Student evaluations from the last presentation of the course

• Some typographical errors were identified in the Study Guide.
• Students found the differences within each class in mathematical/financial abilities (some have very little in one or both) caused issues when working and collaborating within the group.

Coordinator’s response

• A comprehensive effort has been made to correct errors.
• Fully worked solutions will be provided as more quizzes and sample questions are added. More examples will also be provided to show how to use a financial calculator or Excel to solve financial mathematical problems.
• Groups are formed to reflect diversified skills such as Excel to facilitate assignment work.