



# AFIN353

## Corporate Financial Design

S1 Day 2014

*Applied Finance and Actuarial Studies*

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## General Information

### Unit convenor and teaching staff

Unit Convenor

Keith Woodward

[keith.woodward@mq.edu.au](mailto:keith.woodward@mq.edu.au)

Contact via [keith.woodward@mq.edu.au](mailto:keith.woodward@mq.edu.au)

Listed on ilearn. Also available in tutorials or in the Wednesday 4 to 6pm lecture.

Unit Administrator

Linh Nguyen

[linh.nguyen@mq.edu.au](mailto:linh.nguyen@mq.edu.au)

Contact via [linh.nguyen@mq.edu.au](mailto:linh.nguyen@mq.edu.au)

Listed on ilearn.

Narelle Gordon

[narelle.gordon@mq.edu.au](mailto:narelle.gordon@mq.edu.au)

Credit points

3

Prerequisites

39cp including (ACCG252 or AFIN252)

Corequisites

Co-badged status

Unit description

This unit challenges the student to consider a comprehensive set of factors that influence organisations in their payout, investment and finance decisions within a dynamic framework. The decision might reflect the personality of a CEO, the composition of competitors or expectations about fluctuations in the economy. In this sense, students 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. By the end of the unit students should understand: the theoretical and practical implications of the multifaceted nature of risk; 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; the theory and methods used in assessing the costs and benefits of mergers and acquisitions; and the link between corporate governance and finance. These outcomes contribute to the development of critical, analytical and integrative thinking.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.

Choose between alternative quantitative approaches available in corporate finance.

Describe benefits and limitations of each.

Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.

Evaluate market versus regulation discussions, including appropriate levels of regulation in the merger and acquisition areas.

Analyse contemporary debates in the corporate finance literature and in the media, and form views on these debates.

Investigate the behavior of stakeholders in the corporation following finance and investment decisions, linking this behavior to wealth transfers between stakeholders.

## Assessment Tasks

Name	Weighting	Due
<a href="#"><u>Class Test 1</u></a>	5%	Week 4
<a href="#"><u>Class Test 2</u></a>	20%	Week 7
<a href="#"><u>Assignment</u></a>	25%	Week 11
<a href="#"><u>Final Examination</u></a>	50%	University Examination Period

### Class Test 1

Due: **Week 4**

Weighting: **5%**

Coverage and Format

See ilearn for details.

Extension

No extension. No supplementary assessment task.

## Penalties

Students who do not attempt this task according to its instructions and as scheduled will be awarded a mark of zero ("0") for the task, except for cases in which an application for special consideration is made and approved. Only if approved, is the relative weight of this task added to the relative weight of the end-of-semester 'final' examination. Refer to the MQ Special Consideration Policy.

On successful completion you will be able to:

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.
- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.

## Class Test 2

Due: **Week 7**

Weighting: **20%**

Coverage and Format

See ilearn for details.

Extension

No extension. No supplementary assessment task.

## Penalties

Students who do not attempt this task according to its instructions and as scheduled will be awarded a mark of zero ("0") for the task, except for cases in which an application for special consideration is made and approved. Only if approved, is the relative weight of this task added to the relative weight of the end-of-semester 'final' examination. Refer to the MQ Special Consideration Policy.

On successful completion you will be able to:

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.
- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.

## Assignment

Due: **Week 11**

Weighting: **25%**

Format, Task and Submission

See ilearn for details.

Extension

No extension. No supplementary assessment task.

Penalties

Students who do not attempt this task according to its instructions and as scheduled will be awarded a mark of zero ("0") for the task, except for cases in which an application for special consideration is made and approved. Only if approved, is the relative weight of this task added to the relative weight of the end-of-semester 'final' examination. Refer to the MQ Special Consideration Policy.

On successful completion you will be able to:

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.
- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.
- Investigate the behavior of stakeholders in the corporation following finance and investment decisions, linking this behavior to wealth transfers between stakeholders.

## Final Examination

Due: **University Examination Period**

Weighting: **50%**

What is required to complete the unit satisfactorily?

Attempt and submit each assessment task by its scheduled time on the due date. Note: to 'pass' the unit overall, students must (a) attain at least a 50% result in the final examination, and (b) attain at least an average 50% result in the three in-semester assessment tasks.

Examination conditions

As outlined in the MQ Final Examination Policy.

Supplementary Examination

Refer to the MQ Special Consideration Policy, and the MQ Final Examination Policy.

## Coverage

See ilearn for details.

On successful completion you will be able to:

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.
- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.
- Evaluate market versus regulation discussions, including appropriate levels of regulation in the merger and acquisition areas.
- Analyse contemporary debates in the corporate finance literature and in the media, and form views on these debates.
- Investigate the behavior of stakeholders in the corporation following finance and investment decisions, linking this behavior to wealth transfers between stakeholders.

## Delivery and Resources

### Prescribed Text

Berk J. and P. DeMarzo. 2011. *Corporate Finance*. Global Edition, 2/E, Harlow, UK: Pearson Education Ltd.

Available for purchase from the Macquarie University Co-op Bookshop.

### Communication Channels

For discussion of subject materials please speak to any of our helpful staff Keith, Toomas, Lihn, Amir, Larissa or Wei during class, in consultation or by email. Please keep in mind that most concepts are best explained in person rather than by email where it is difficult to write equations and give examples.

For **administrative matters** please contact the unit administrator Linh Nguyen during her consultation time (listed on ilearn) or by email (Linh.Nguyen@mq.edu.au).

### Academic Consultation

Staff are available for AFIN353 academic consultation throughout the semester. A schedule of consultation times and locations will be available on iLearn from Week 2.

### Lectures and Tutorial Classes

The Unit involves three hours of face-to-face teaching per week, consisting of one lecture (delivered in two streams - Wednesday or Thursday) and one tutorial.

Attendance is not compulsory, except for days when tests are administered.

Keep in mind that this is a very difficult but interesting course which you will find rewarding in your corporate and everyday lives. By the end of this course you will be able to confidently value most assets including businesses, stocks, bonds, real estate and options.

Lectures commence in Week 1. Tutorial classes commence in Week 2.

The timetable for lectures and tutorial classes is available at URL <https://timetables.mq.edu.au/2013>.

### Audio and Video Recordings

The Wednesday lecture will be audio and video recorded, though students should not rely on this due to the high probability of equipment malfunction and user error.

### Lecture Slides

Available weekly before lecture through iLearn.

### Technology Used and Required

The unit will use an on line learning and teaching facility known as iLearn, accessed through the following URL <https://ilearn.mq.edu.au/login/MQ>.

Students should monitor iLearn content frequently to ensure timely access to announcements, unit material and assessment information.

### Learning Strategies

Tutorial work will be sourced from different resources, including the prescribed textbook. Tutorial work should be attempted before attending tutorials. Brief solutions will be available weekly through iLearn, usually by the end of the week.

Moreover, we recommend:

- 1) Sufficient preparation time - for lectures, tutorials and assessment tasks;
- 2) Attending all lectures and tutorial classes, as per class lists - while attendance is not compulsory tutors keep a record of weekly attendance, which can be consulted for cases in which an application for special consideration is made;
- 3) Attempting tutorial work weekly, before attending class - tutors will not always be able to cover all assigned tutorial work so they will be glad to explain the harder questions if you politely ask;
- 4) Bringing the lecture notes to lectures and the assigned homework to tutorials.

### What has Changed?

The current edition has modified some lecture topics, assessment tasks and curriculum mapping.

## **Unit Schedule**

**Note:** The chapters listed below are the most important for your assessment. But keep in mind that **chapters 1-24 are also examinable**. You're likely to be familiar with most of them already.

The first half of the course revises concepts learned in the pre-requisite subjects but with more emphasis on how changes in cash flows, leverage, risk and expected returns impact each other and the price of the asset, whether it's a business, stock, bond or property. The last half of the course examines options, mergers, incentives and governance which are more specialised topics, though they are arguably easier to grasp.

<b>Week</b>	Wednesday Date	<b>Lecture Topics and Chapter</b>	<b>Tutorial Chapter</b>
1	5/3/14	DCF and Multiples valuation - Ch 7, 8 and 9.	No tutorials.
2	12/3/14	Cash flows and valuation - Ch. 19.	Ch 7, 8 and 9.
3	19/3/14	Estimating the cost of capital - Ch 12. Investor behavior and capital market efficiency - Ch 13.	Ch. 19.
4	26/3/14	Debt and taxes - Ch 15. Financial distress, managerial incentives, and information - Ch 16.	<b>Class test in tutorials.</b>
5	2/4/14	Capital budgeting and valuation with leverage - Ch 18.	Ch 12 and 13.
6	9/4/14	Debt financing - Ch 24.	Ch 15 and 16.
		Mid semester break.	
7	30/4/14	<b>Class test (mid-semester) in lectures.</b>	Ch 18.
8	7/5/14	Raising equity capital, privatization - Ch 23.	Ch 24.
9	14/5/14	Financial options - Ch 20 and 21.	Ch 23
10	21/5/14	Real options - Ch 22.	Ch 20 and 21.
11	28/5/14	Mergers and acquisitions - Ch 28. <b>Assignment due.</b>	Ch 22.
12	4/6/14	Corporate governance - Ch 29.	Ch 28.



13	11/6/14	Revision.	Ch 29.
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## Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy [http://mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://mq.edu.au/policy/docs/academic_honesty/policy.html)

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy [http://mq.edu.au/policy/docs/grievance\\_management/policy.html](http://mq.edu.au/policy/docs/grievance_management/policy.html)

Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](http://www.mq.edu.au/policy/docs/disruption_studies/policy.html) *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: [https://students.mq.edu.au/support/student\\_conduct/](https://students.mq.edu.au/support/student_conduct/)

### 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 URL [http://www.mq.edu.au/policy/docs/academic\\_honesty/policy.html](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

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at URL <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 at URL [http://www.businessandconomics.mq.edu.au/new\\_and\\_current\\_students/undergraduate\\_current\\_students/how\\_do\\_i/grade\\_appeals/](http://www.businessandconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/grade_appeals/)

## Special Consideration Policy

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 URL [http://www.mq.edu.au/policy/docs/special\\_consideration/policy.html](http://www.mq.edu.au/policy/docs/special_consideration/policy.html)

## Supplementary Exams

Further information regarding supplementary exams, including dates, is available here [http://www.businessandconomics.mq.edu.au/current\\_students/undergraduate/how\\_do\\_i/special\\_consideration](http://www.businessandconomics.mq.edu.au/current_students/undergraduate/how_do_i/special_consideration)

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study

strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

## IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### Discipline Specific Knowledge and Skills

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

### Learning outcomes

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.
- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.

## Assessment tasks

- Class Test 1
- Class Test 2
- Assignment
- Final Examination

## Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

This graduate capability is supported by:

### Learning outcomes

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.
- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.

## Assessment tasks

- Class Test 1
- Class Test 2
- Assignment
- Final Examination

## Problem Solving and Research Capability

Our graduates should be capable of researching; of analysing, and interpreting and assessing data and information in various forms; of drawing connections across fields of knowledge; and they should be able to relate their knowledge to complex situations at work or in the world, in order to diagnose and solve problems. We want them to have the confidence to take the initiative in doing so, within an awareness of their own limitations.

This graduate capability is supported by:

### Learning outcomes

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.

- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.

## **Assessment tasks**

- Class Test 1
- Class Test 2
- Assignment
- Final Examination

## **Effective Communication**

We want to develop in our students the ability to communicate and convey their views in forms effective with different audiences. We want our graduates to take with them the capability to read, listen, question, gather and evaluate information resources in a variety of formats, assess, write clearly, speak effectively, and to use visual communication and communication technologies as appropriate.

This graduate capability is supported by:

## **Learning outcomes**

- Proficiency at asset valuation using discounted cash flow and multiples techniques, making appropriate use of market data and accounting reports.
- Choose between alternative quantitative approaches available in corporate finance. Describe benefits and limitations of each.
- Demonstrate adjusting for risk in making corporate finance and investment decisions, including benefits of the real options approach.

## **Assessment tasks**

- Class Test 1
- Class Test 2
- Assignment
- Final Examination

## **Research and Practice**

The major assignment involves in-depth research. To illustrate, students will need to read financial reports, market share price and bond yield data, academic and professional finance journals, the business sections in newspapers and the financial press. They must synthesise this information in developing their own arguments.

There is also an opportunity to scan other sources of information, in doing research. In the on-

line databases section of the MQ Library, both *Business Source Premier* and *Factiva*, to mention two, are very useful resource tools.