

MPF753 Finance

Semester 2, 2005

Unit Guide

Unit overview

Nature of the unit

The course is designed to assist students to use modern financial techniques to make investment decisions, financing decisions and dividend decisions in the context of the Australian and international financial institutional framework.

Learning objectives

The Finance unit will enable students to understand modern financial techniques underpinning investment, financing and dividend decisions in the context of the Australian and international financial institutional framework. In addition the unit covers financial mathematics and investment analysis tools and techniques, as well as issues such as optimal capital structure and dividend policy.

The unit includes the following objectives:

- to provide an understanding of the conceptual foundations for financial decision making;
- to enable students to understand and use available analytical techniques for making long term financial investment decisions;
- to examine the effects of using alternative methods of raising funds and the effects of alternative capital structures in theory and in practice;
- to provide an understanding of the framework of financial institutions and financial instruments available in Australia and internationally.

Prerequisites

Nil.

Content

- The scope of finance and the time value of money
- An introduction to capital budgeting
- Project analysis and evaluation
- Risk and return
- Cost of capital
- Raising long-term capital and short-term finance
- Financial leverage and capital structure policy
- Dividends and dividend policy
- Long-term financial planning and growth
- Introduction to derivatives

Learning environments/Learning approach

A Study Guide is provided for participants in this unit to be used in conjunction with the text. Students will be required to work their way through the Study Guide and the associated text as they study the unit. The lecturer will be available at a Deakin e-mail address, telephone, or through the Deakin Studies Online (DSO) system and will aim to answer or discuss issues quickly and appropriately (within 2 working days unless away from the university on university business).

On-campus participants attend a three-hour seminar each week. The seminars employ a variety of teaching and learning strategies, involving staff and student interaction.

Off-campus students work through the topics as per the unit planner (see end of this document). Queries on this material should be posted on DSO for the off-campus co-ordinator to address.

Student evaluation and Unit changes

At the end of this unit you are strongly encouraged to complete the Student Evaluation form. Information about this is located at http://www.deakin.edu.au/unit_eval/. We take your feedback and evaluation very seriously, and as a result of previous feedback a number of changes have been made to this unit, such as:

- Using interactive “PowerPoint” slides during lectures/seminars.
- Incorporating problem solving into the lectures/seminars.
- Solving previous exam questions during the seminars.
- Posting previous exam papers and their solutions on DSO.
- Posting “printer friendly” versions of the lecture notes on DSO.

Learning resources

Prescribed Texts

Ross, S. A., Westerfield, R. W. & Jordan, B. D. 2003, Fundamentals of Corporate Finance, 6th edn, Irwin McGraw-Hill, Boston. **Please ensure that you obtain the Alternate Edition, ISBN: 0-07-246982-X.**

To order textbooks, reference books, general books and software from Unitexts, you can choose from the following options:

- Phone: **1800 686 681** (free call) for fast processing of your order;
- E-mail: unitexts@deakin.edu.au
- Order online from the Unitexts web site at <http://www.unitexts.deakin.edu.au>

Payment can be made using Bankcard, Visa or Mastercard. All orders are processed and sent via fast courier delivery to your door.

If you require further information please phone **(03) 5563 3212**.

Prescribed Case Studies

Two Harvard case studies will be presented in class for discussion. A synopsis of each is provided in Appendix One of this unit outline. Students can purchase the cases through www.xanedu.com

To access the XanEdu Course Pack, students will need to do the following:

1. Open the XanEdu "Login/Register" page at: <http://www.xanedu.com/login?PackId=234707>
2. If you have previously registered at XanEdu, log in. If you are new to XanEdu, click the "Student Registration" button under "New Users Register Here". Complete and submit the registration form.
3. Confirm your Course Pack Selection, and complete the purchase form.

Course Pack Title: MPF753 Finance Semester 2, 2005 Deakin University

Course Pack ID: 234707

- Price: \$8.15
 - You will have immediate access to your Digital Course Pack.
 - You will not receive a printed copy of the Course Pack.
 - You can print your Course Pack yourself, if your system hardware and connectivity supports downloading and printing very large files from the Internet.
4. After completing the purchase, you will be taken directly to "My XanEdu" where you can access your digital Course Pack.

If you have any questions on XanEdu, please contact Sandra Bugeja on sbugeja@internode.on.net

Recommended Financial Calculator

Financial calculators (i.e., calculators with NPV and IRR functions) **are essential** for this unit. We recommend the Sharp EL-735, which will be used during lectures. You may use a financial calculator in the final examination. Please note, that when presenting the keystrokes for a solution to a problem in the final examination, only those of the SHARP EL-735 will be accepted.

Books (Recommended Reading)

Brealey, R. A., Myers, S. C., Partington, G. H. & Robinson, D. M. 2000, *Principles of Corporate Finance*, 1st Australian edn, McGraw-Hill, Sydney.

Peirson, G., Brown, R., Easton, S. & Howard, P. 2001, *Business Finance*, 8th edn, McGraw-Hill, Sydney.

Journals

Business journals such as *Business Review Weekly* and *Personal Investment* often contain articles relevant to the study of finance.

Other references

At the end of most topics you will find a list of references and further resources. The reference list provides full bibliographical detail for all references cited in the Study Guide. The reference lists themselves should not be regarded as lists of required additional reading. However, you may wish to supplement your reading with any of the entries from these lists or from the list of further resources supplied for most topics.

Internet sites

There are also many Internet sites that you might also like to visit during the course of your study of finance. Below is a list of many popular and informative sites.

- Aust Financial Markets Association <www.afma.com.au>
- AFR Trading Room <www.tradingroom.com.au>
- AMP <www.amp.com.au>
- ANZ Bank <www.anz.com>
- Australian Stock Exchange <www.asx.com.au>
- Commonwealth Bank <www.commbank.com.au>
- Commonwealth Securities <www.comsec.com.au>
- E-Trade <www.etrade.com.au>
- Finance Trader <www.financetrader.com>
- GST Resource Site <www.gst.com.au>
- ING Direct <www.ingdirect.com.au>
- MoneyWeb Financial Search Directory <www.moneyweb.com.au/>
- Mortgage Choice <www.mortgagechoice.com.au>
- National Australia Bank <www.national.com.au>
- NRMA <www.nrma.com.au>
- Permanent Trustee Company Limited <www.permanenttrustee.com.au>
- Rothschild Aust. Asset Management <www.rothschild.com.au>
- St George Bank <www.stgeorge.com.au>
- Sydney Futures Exchange <www.sfe.com.au>
- Westpac <www.westpac.com.au>
- Your Prosperity <www.yourprosperity.com.au>

Source: *Australian Financial Review*, 28 January 2000, p. 28.

Study Guide and Readings

Study Guide

Each topic in the Study Guide contains the following parts:

- *Introduction*: This outlines what will be covered in the topic.
- *Objectives*: The objectives have been designed to help you clarify in your mind whether you have understood important points presented by the authors. If you are not confident that you can achieve each objective after studying the learning materials you should re-read the relevant sections of the Study Guide and associated texts. The objectives are set out at the beginning of each topic.
- *Learning resources*: This section indicates the relevant chapters from the prescribed texts and lists the readings for the topic.
- *Key concepts*: Any new terms and/or concepts introduced in a topic are listed in this section.

Within the body of the topic notes you will find three types of questions or exercises:

- formal in-text exercises;
- reflective in-text questions; and
- review questions.

Formal exercises require you to prepare answers, and compare them with the suggested answers before continuing. This type of exercises tests your comprehension and your ability to apply specific concepts, theories, formulae or techniques discussed in the Study Guide.

Reflective questions require you to ponder, reflect upon or investigate something which has no suggested answer and may even be unanswerable. Specifically, this type of question may ask you to inquire about certain facets of your firm's financing and investment policies. We state at various points in the Study Guide, and it is worth emphasising here, that our instructions to explore your own firm's activities in the field of finance may gain you a reputation for asking embarrassing and irritating questions from some people in your organisation. If this occurs, don't be perturbed! The answers you dig up, or perhaps the lack of them, will provide valuable practical information and experience for the theoretical discussion of finance which we canvass in the Study Guide.

Review questions, where given, help you confirm your understanding of the issues raised in the topics. You should note that the review questions, like the formal in-text exercises, have suggested answers, and are not compulsory or assessable. However, we stress that the review questions will be beneficial in testing your understanding of each topic's objectives and provide a good starting point in revising for the examination.

These Study Guide is available online in the Resources area in the unit's area in DSO or in printed form from Unitexts.

The materials are provided in hardcopy form to off-campus students. If you do not receive materials provided by Deakin you could contact the Course Materials Hotline:

- Phone: **1800 242 251** (free call).
- E-mail: coursematerials@deakin.edu.au

Readings

Readings from journals and texts which accompany topics are an integral part of the Study Guide. They should not be seen as independent of the Study Guide commentary.

Other resources

The Deakin Learning Toolkit contains a number of resources that may be useful for this unit:

- Web browsers and other software
- Information about the Library

Staff and contact details

Unit Chair:

Gus Hossari, CMA
Lecturer
Deakin Business School
Faculty of Business and Law
Email: gus.hossari@deakin.edu.au
Room: G1.43, Toorak Campus
Telephone: +61 3 9244 5106

Other On Campus Staff:

Sheikh Rahman
Sessional Lecturer
Email: sheikh.rahman@deakin.edu.au

Off Campus Co-Ordinator:

Peter Foreman
Email: peter.foreman@deakin.edu.au

Administrative queries

Queries relating to administrative matters should be addressed, in the first instance, to a student adviser, staff at the Faculty Office, Student Administration Group Manager or the Faculty Registrar. Inquiries can be made via email to:

- enqblm@deakin.edu.au (for students at Burwood)
- enqbuslaw-g@deakin.edu.au (for students at Geelong)
- enqblw@deakin.edu.au (for students at Warrnambool)

Assessment

Self-assessment

This type of assessment is made up of in-text exercises. The purpose of these exercises is to give you the opportunity, as the unit progresses, of assessing your understanding of significant points. Suggested answers provide quick feedback to you on your performance in comprehension or in applying specific knowledge. You should therefore devote considerable effort to these self-assessment tasks.

Assignments

Formal assessment for this unit includes two assignments. You may submit the assignments as an individual or in a group (at the discretion of your instructor). Group size should be limited to a maximum of **three** students. Please understand that more effort will be required for group written reports than for individual submissions.

There are no formal guidelines on format and style. You may use your own discretion regarding the appropriate style for these assignment submissions.

Presentation of assignments

- Assignments should be typed in double spacing on one side only of single sheets of A4 paper.
- All sheets should be pinned or stapled firmly together at the top left-hand corner.
- **Remember to keep a copy** of any work you submit. The mail is not always reliable and human error can and does occur.

Due dates

Please note that you must observe the due dates for assignments (as detailed in the assignment). As we wish to return marked assignments quickly, we are not predisposed to giving extensions **except in exceptional circumstances with full documentary support. We will endeavour to return marked assignments to students within 10 working days of the day received by the assessor(s).** *Please note that with off-campus students, assignments are often not received by the assessor(s) until up to one week after student submission. Hence, this will add one week to the marking turn around for these students.*

Any assignments that arrive **late** (i.e., after the due date) without a time extension approved by the chair of the unit will **incur a penalty, which is a deduction of 10% per each calendar day after the due date.** We believe that the allotment of time within the work schedule for attempting the two assignments will allow you to meet the submission deadlines.

Submitting assignments

On-campus students

On-campus students should submit their assignments into the “mailbox” provided at the Deakin Business School administration office located on the second floor of the McInnery Building near the security office, Toorak campus. Moreover, on-campus students should lodge electronic copies of their assignments on Deakin Studies Online (DSO).

Off-campus students

All assignments should be delivered (mailed) to:

Assignment Tracking, DSA
Deakin University: Geelong
Geelong, Victoria 3217, AUSTRALIA

Students located outside of Australia only may e-mail their assignment direct to the unit chair. If you wish to have your assignment returned to you, it is important to include the pre-printed assignment assessment form as the first page of the assignment. For record and mailing purposes this pre-printed form is read into the computer by an electronic wand. Enclosing assignments in heavy and larger than A4 covers is not desirable as it makes the mailing operation more difficult.

Do **not** e-mail your assignments except for students located outside Australia.

Moreover, off-campus students should lodge electronic copies of their assignments on Deakin Studies Online (DSO).

Examination

The examination will be based on the whole unit (including Harvard case studies presented in class) and will be three hours in duration. The exam is worth 60% of the overall assessment for the unit. It is a closed-book exam, i.e. you are not able to bring notes or books into the exam. Financial calculators are essential and permitted into the examination room. Please note, that when presenting the keystrokes for a solution to a problem in the final examination, only those of the SHARP EL-735 will be accepted. You will be advised later in the semester about the date and place of the examination.

Determination of final grade

Your final mark will be based on your performance in the two assignments and the exam. Your final mark is calculated as a weighted average of the first assignment, the second assignment and the final exam on a percentage basis. The weights for each of the three assessment tasks are shown below in the "Summary of Assessments" table. **Please, note that this unit has a hurdle requirement whereby students are required to score at least 45% on the examination in order to gain a pass grade or better in this unit.** Students who fail to meet this hurdle requirement will receive a final mark of either 45% or the weighted average of their three assessment tasks, whichever is smaller.

Also, please note that university policy requires that a mark of 45% be recorded where a student has achieved marks totalling 45% or greater in a unit, but has failed to meet a published requirement which is necessary for a pass in that unit

Note that the assessment panel for this unit will endeavour to set assessment tasks that are of an appropriate standard and comparable to the standards set in other offerings of the unit. The faculty has guidelines and procedures to assist assessment panels set appropriate standards of assessment; these allow marks to be rescaled if necessary. Thus, raw marks in the unit may be rescaled so that the overall assessment is at an appropriate standard. Any such rescaling will be carried out for all students in the unit irrespective of their class, location or mode of study and will not alter the rank ordering of students.

Summary of Assessments

Formal assessment

Assessment	Due Date	Weight
Assignment 1	16 August by 6:00 PM	10%
Assignment 2	4 October by 6:00 PM	30%
Examination	31 October – 11 November (exact date to be advised)	60%
TOTAL		100%

Return of marked assignments and requests for reviews

Please note that before results are returned to you, the teaching team will have applied methods to ensure that the standards by which your work has been assessed are the same for all students enrolled in the unit.

You may request additional information from assessors or checks on addition or recording errors. You can contact the unit chair/coordinator directly, or use the 'Stage 1 Review' form available from the Faculty office. However, no reviews or remarks of assessment tasks are allowed unless you formally request such a review through the Faculty Academic Progress and Disciplinary Committee. Such requests must be submitted on the Administrative Review of Result form and may be submitted at any time up to 10 days after the release of final results for the unit.

Students who submit their assignments early will receive their results and assessed assignments back with the rest of the students.

Special consideration

If you consider that your assessment was or is likely to be adversely affected by serious and exceptional circumstances beyond your control, you may apply for special consideration. Grounds can be medical, compassionate or hardship/trauma. Applications will not be granted where the grounds are trivial. A form is available from the Faculty office. Special consideration is not normally intended for assignments and other forms of continuous assessment during the semester – you should apply to the unit chair/coordinator for an extension in such cases.

Applications for special consideration must be made no later than three days after the due date of the assessment task. They are referred to the relevant unit chair or nominee for determination and the outcome is notified within 10 working days of the application or before publication of final results for the unit.

Plagiarism and other academic offences

Plagiarism is the copying of another person's ideas or expressions and presenting them as your own without an explicit indication of the source of the material. It includes copying written works such as books or journals, data or images that may be presented in tables, diagrams, designs, plans, photographs, film, music, formulae, web sites and computer programs. Plagiarism also includes the use of the work of lecturers or other students as your own without acknowledgment.

Intention to cheat is irrelevant in determining whether plagiarism has occurred – if you pass off the work of others as your own without acknowledgement, then you have offended, whether you knew you were doing it or not. Even the 'George Harrison defence' is irrelevant in determining if plagiarism

has occurred. George's explanation for "My Sweet Lord" sounding like "He's So Fine" as recorded by the Chiffons in 1962 was "I did not knowingly copy another's work – it was just in my head so that I assumed it was original". George still plagiarised.

The University regards plagiarism as an extremely serious academic offence. The penalties associated with plagiarism may be severe and extend to cancelling all marks for the specific assessment item or for the entire unit or even exclusion from your course. These penalties are detailed in Part 2 of Regulation 4.1 (1) Student Discipline, and can be one of the following:

- A reprimand.
- A fine not exceeding \$500.
- A zero mark in the relevant task or such other mark as is appropriate.
- A zero mark in the relevant unit or such other mark as is appropriate.
- A zero mark in such other units in which the student is enrolled as the Faculty Academic Progress and Discipline Committee may determine.
- Suspension from studies for up to one year.
- Exclusion for a minimum period of one year.

It is important to realise, however, that it is certainly not an offence to use the work of others in your work. On the contrary - a well-constructed essay or report should normally refer to and build on the work of others for positioning, supporting and strengthening your work and advancing knowledge. Plagiarism occurs when due recognition and acknowledgement of the work of others is not provided. Therefore, whenever you are using another person's research or ideas (whether by direct quotation or by paraphrasing) you must appropriately cite the source. If you are ever in doubt about the most appropriate form of referencing, you should consult your lecturer or Student Life.

Teaching teams will use a variety of methods to detect plagiarism, and some units may require that you submit your work to a system that can check your work for possible plagiarism.

Unauthorised collaboration is a similar offence. Unauthorised collaboration involves working with others with the intention of deceiving examiners about who actually completed the work. If there has been any collaboration in preparing individual assessment items, this must be disclosed. In the case of group project work, lecturers provide guidelines on what level of collaboration is appropriate and how the work of each participant in the project is to be assessed. If you have any doubt about what constitutes authorised and unauthorised collaboration you should consult your lecturer.

Academic skills – understanding academic requirements

Writing style requirements

Written assessment tasks can vary from unit to unit and even within one unit. It is important that you understand what is required of a particular writing style to maximise your chances of academic success. Examples of writing styles used for assessment in the Faculty of Business and Law include assignments, essays, case studies and reports.

The following link to the Student Life website provides instruction on all of these different writing styles: www.deakin.edu.au/studentlife/academic_skills/undergraduate/index.php

Referencing requirements

Referencing involves acknowledging original sources of information when producing written work. By referencing correctly, you not only give weight to any arguments or statements made in your work, but also avoid plagiarism. The following link to the Student Life website provide a comprehensive guide on 'How to Reference Your Writing' (downloadable):

www.deakin.edu.au/studentlife/academic_skills/postgraduate/handouts/reference.php

The following Library website provides a virtual tutorial on referencing and has an online quiz:

www.deakin.edu.au/library/tutorials/smartsearcher/

School of Law: the School of Law only accepts referencing in accordance with the Australian Guide to Legal Citation published by the Melbourne University Law Review Association Inc. available at www.law.unimelb.edu.au/mulr/aglc.htm

Exam Preparation

Examinations are an important part of assessment for most units in the Faculty of Business and Law. It is imperative that you learn how to prepare for an examination and how to best use your time during an examination so that you can attain academic success. The following links to the Student Life website provide valuable information about how best to prepare and sit for an examination:

www.deakin.edu.au/studentlife/academic_skills/postgraduate/handouts/exams.php

Research skills

The library provides many resources to support your research. See

www.deakin.edu.au/library/findout/research/

Information about research skills specific for the School of Law can be found at

www.law.deakin.edu.au/research/index.htm

Further Information

The Division of Student Life provides free on-campus academic skills workshops including: Organising and Time Management Skills; English Language Classes; How to Avoid Plagiarism; Working in Groups; Your First Assignment; Lectures and Tutorials and Writing University Assignments. See the following website for further details and dates of workshops:

www.deakin.edu.au/studentlife/academic_skills/oncampus_workshops/index.php

Unit planner

This unit consists of ten topics, two cases and two assignments, which occupy a total of 13 weeks. The following table provides a suggested study plan over the semester. Note that the topic order is not sequential. This plan assumes that your expected time commitment will be approximately 8–10 hours per week. There is, of course, nothing wrong in adjusting your workload to suit your individual timetable.

Topic	Date Week Commencing	Title
1	18 July	The scope of finance
1	25 July	Time value of money
4	1 August	An introduction to capital budgeting
4	8 August	An introduction to capital budgeting (cont.)
5	15 August	Project analysis and evaluation
Assignment 1 Due on 16 August by 6:00 PM		
6	22 August	Risk and return
7	29 August	Cost of capital
8	5 September	Raising long-term capital and short-term finance
8	12 September	Raising long-term capital and short-term finance
9	19 September	Financial leverage and capital structure policy CASE: Diageo PLC
Intra Semester Break 24 September – 2 October		
10	3 October	Dividends and dividend policy
Assignment 2 Due on 4 October by 6:00 PM		
2	10 October	Long-term financial planning and growth CASE: FPL Group
3	17 October	Introduction to derivatives
Study Period: 22 October – 30 October		
Examinations Period: 31 October – 11 November		

Appendix One: Case Study Abstracts and Questions

As shown in the unit planner, two case studies will be presented in class. A synopsis of each case is presented below. The full text for these cases may be found in the “MPF753 Finance Semester 1 2005 Deakin University” Course Pack, which is available for purchase from www.XanEdu.com

It is expected that students prepare answers to the questions that are provided after each synopsis for each of the two cases. This is to facilitate discussion of the cases. **Please, note that there will be questions in the examination about these two case studies.**

Diageo PLC

Description

A major U.K.-based multinational is re-evaluating its leverage policy as it restructures its business. The treasury team models the trade-offs between the benefits and costs of debt financing, using Monte Carlo simulation to estimate the savings from the interest tax shields and expected financial distress costs under several sets of leverage policies. The group treasurer (CFO) must decide whether and how the simulation results should be incorporated into a recommendation to the board of directors, and more generally, what recommendation to make regarding the firm's leverage policy.

Teaching Purpose

Introduces students to the static trade-off theory of capital structure, as implemented in a major firm. Also introduces students to the use of simulation to capture the impact of different business policies under uncertainty.

Suggested Questions:

1. Describe how Diageo has historically managed its capital structure.
2. What is the static trade-off theory? How does it work, and how would you apply it to Diageo's business prior to the sale of Pillsbury and the spin-off of Burger King?
3. Why is Diageo selling Pillsbury and spinning off Burger King? How might value be created through these transactions?
4. Based on the result of the model, what recommendation would you make for Diageo's future capital structure? Does the model capture all of the important risk factors faced by Diageo? How would you adjust the recommendation of the model to adjust for any missing risk factors?

Dividend Policy at FPL Group, Inc. (A)

Description

A Wall Street analyst has just learned that FPL (the holding company for Florida's largest electric utility) may cut its dividend in several days despite a 47-year streak of consecutive dividend increases. In response to the deregulation of the electric utility industry, FPL has substantially revised its competitive strategy over the past several years. The analyst must decide whether a change in dividend policy will be a part of FPL's financial strategy in this deregulated environment.

Teaching Purpose

Allow students to examine how firms set and change dividend policy. Also provides a background for examining why firms pay dividends and whether dividend policy matters.

Suggested Questions:

1. Why do firms pay dividends? What, in general, are the advantages and disadvantages of paying cash dividends?
2. What are the most important issues confronting the FPL Group in May 1994?
3. From FPL's perspective, is the current payout ratio appropriate? Would a higher payout ratio be more appropriate? A lower payout ratio?
4. From an investor's perspective, is FPL's payout ratio appropriate?
5. As Kate Stark, what would you recommend regarding investment in FPL's stock – buy, sell or hold?