

School of Economics and Finance

## **MMAF528: ST: ADVANCED CORPORATE FINANCE**

Second Trimester 2005

### **COURSE OUTLINE**

#### **Contact Details**

The course supervisor is Martin Lally, RH 301, Ph 463-5998, martin.lally@vuw.ac.nz.

#### **Class Times and Room Numbers**

Tuesday, 3.40pm – 6.30pm, RLWY 125.

There will be a final exam during the normal examination period for this semester.

#### **Course Objectives**

The course intensively examines selected aspects of corporate financial theory and empirical evidence. Classes will comprise weekly 2-3 hour seminars at which student contribution is anticipated. Prescribed reading should be done prior to the relevant class. Assignments will be prescribed weekly, for submission at the commencement of the following week's class.

#### **Materials and Equipment**

Electronic calculators may be used in examinations. Calculators must be no-programmable and without a full set of alphabetic keys.

#### **Assessment Requirements**

The final mark for the course will be based upon the following approximate weights

Weekly assignments	25%
Essay (see below)	25%
Final Exam	50%

The essay comprises a critical review of the empirical literature on the question of "Do Mergers/Takeovers increase value"? It must be typed, 1.5 spaced A4, font 12, with a maximum of 18 pages at 25 lines per page, excluding the bibliography (c. 6000 words). Pages must be **numbered**. Students should consult a book on essay style and be guided by the style of review articles in the journal literature (for example, E. Fama, Efficient Capital Markets, *Journal of Finance*, Dec 1991). In particular the essay should develop a classification scheme for the papers examined and discuss methodology as well as results. The due date is **October 7** (5.00pm).

#### **Penalties**

Late essays will suffer a penalty of 5% per calendar day (i.e. marked out of 95, 90, etc.) unless an extension has been granted in advance for significant medical or personal problems. Essay material in excess of the limit prescribed above will **not** be evaluated.

### **Mandatory Course Requirements**

There are no mandatory requirements for passing the course other than obtaining at least a C grade.

### **Communication of Additional Information**

Any additional information will be conveyed to students during classes.

### **Course Content**

The following topics will be examined.

1. The Wealth Maximisation Goal: July 5
2. Capital Structure
  - (a) Non debt Tax Shields: July 12
  - (b) Constant Market Value Leverage: July 19
3. Cost of Capital
  - (a) Estimation of the market risk premium: July 26, Aug 2, 9
  - (c) Estimation of beta: Aug 30, Sept 6
4. Capital Budgeting:
  - (a) Multiperiod discounting in a CAPM world: Sept 13
  - (b) Determination of pure security prices by CAPM and OPM: Sept 20
  - (c) Valuation with real options: timing, abandonment & reopening: Sept 27, Oct 4

### **Readings**

Students should first be familiar with the mathematics in

Copeland, T. and Weston, J., "Financial theory and Corporate Policy", 3rd edition, Addison-Wesley, 1988, Appendices B and D.

Spiegel, M., "Advanced Calculus", McGraw-Hill, 1974, Ch. 1-6.

and the statistics in

Wonnacott, R. and Wonnacott, T., "Introductory Statistics", 3rd edition, Wiley, 1977, Ch 1-13.

Where appropriate reference should also be made to

Mood, A., Graybill, F. and Boes, D., "Introduction To The Theory of Statistics", 3rd edition, McGraw-Hill, 1974.

Prescribed reading for the seminar topics is as follows :

### 1. Wealth Maximisation Goal:

Copeland, T. and Weston, J., "Financial Theory and Corporate Policy", 3rd edition, Addison-Wesley, 1988, Ch. 1, Ch 2 A, B.

De Angelo, H., "Competition and Unanimity", *American Economic Review*, 1981, pp 18-27.

### 2. Capital Structure:

Copeland, T. and Weston, J., "Financial Theory and Corporate Policy". 3rd edition, Addison-Wesley, 1988, Ch. 13, A-B, Ch 14, A-C.

De Angelo, H. and Masulis, R., "Optimal Capital Structure Under Corporate And Personal Taxation", *Journal of Financial Economics* 8 (1980), pp 3-29.

Miles, J. and Ezzell, J., "Reformulating Tax Shield Valuation: A Note", *Journal of Finance* 40, (1985), pp 1485-1492.

### 3. Cost of Capital:

Copeland, T. and Weston, J., "Financial Theory and Corporate Policy, 3rd ed., Addison-Wesley 1988, Ch 13, C-F, Ch 14, D

Ibbotson, R. and Sinquefeld, R., "Stocks, Bonds, Bills, and Inflation", *Journal of Business* (1976), pp 11-47.

Siegel, J., "The Equity Premium: Stock and Bond Returns Since 1802", *Financial Analysts Journal* (Jan-Feb 1992), pp 28-38.

Lally, M., "Time-Varying Market Leverage, the Market Risk Premium and the Cost of Capital", *Journal of Business Finance and Accounting* 29 (Nov/Dec 2002), pp. 1301-1318.

Merton, R., "On Estimating The Expected Return on the Market", *Journal of Financial Economics* 8 (1980), pp 323-361.

Cornell, B., *The Equity Risk Premium*, John Wiley & Sons Inc (1999), Ch 3.

Cooper, I., "Arithmetic Versus Geometric Mean Estimators: Setting Discount Rates for Capital Budgeting", *European Financial Management* 2, (1996), pp. 157-67.

Conine, T., "Corporate Debt and Corporate Taxes: An Extension", *Journal of Finance* (1980), pp 1033-1036.

Cornell, B. and Green, K., "The Investment Performance of Low-Grade Bond Funds", *Journal of Finance* (1991), pp. 29-48.

Ehrhardt, E. and Shrieves, R., "The Impact of Warrants and Convertible Securities on the Systematic Risk of Common Equity", *The Financial Review* 30 (1995), pp 843-856.

Lally, M., "An Examination of Blume and Vasicek Betas", *The Financial Review* 33, (1998), pp 183-198.

\_\_\_\_\_ "Correcting Betas for Changes in Firm and Market Leverage", *Pacific Accounting Review* 10, (1998), pp. 97-115.

\_\_\_\_\_ "Betas and Market Leverage", *Accounting Research Journal* 15(1), (2002), pp. 91-97.

#### 4. Capital Budgeting:

Copeland, T. and Weston, J., "Financial Theory and Corporate Policy". 3rd edition, Addison-Wesley, 1988, Ch. 12, A-D, F.

Fama, E., "Risk-Adjusted Discount Rates and Capital Budgeting Under Uncertainty", *Journal of Financial Economics* 5 (1977), pp 3-24.

Myers, S. and Turnbull, S., "Capital Budgeting and the Capital Asset Pricing Model: Good News and Bad News", *Journal of Finance* 32 (1977), pp 321-33.

Haley, C. and Schall, L., "The Theory of Financial Decisions", 2nd edition, pp 255-261.

Banz, R. and Miller, M., "Prices For State Contingent Claims: Some Estimates and Applications", *Journal of Business* 51 (1978), pp 653-672.

Dixit, A. and Pindyck, R., *Investment under Uncertainty*, Princeton University Press, Ch. 2.

J. Hull, *Options, Futures and Other Derivatives*, 3<sup>rd</sup> edition, Prentice-Hall, Ch 9, 15.8

M. Brennan and E. Schwartz, "Evaluating Natural Resource Investments", *Journal of Business* 58 (1985), pp 135-157.

## **Faculty of Commerce and Administration Offices**

### Railway West Wing (RWW) - FCA Student Administration Office

The Student Administration Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications.

### Easterfield (EA) - FCA/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce & Administration and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office, will be open from 9:00 am to 5:00 pm during Trimester 2, offers the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- FCA Student Administration forms (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

Please note:

There will be a Student Administration Adviser, from the RWW office, based in EA005 from Monday 27 June to Friday 1 July (9:00 am to 5:00 pm) and from Monday 4 July to Friday 22 July (11:00 am to 1:00 pm).

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

## **Student Conduct and Staff Conduct**

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at: [www.vuw.ac.nz/policy/StudentConduct](http://www.vuw.ac.nz/policy/StudentConduct).

The policy on Staff Conduct can be found on the VUW website at: [www.vuw.ac.nz/policy/StaffConduct](http://www.vuw.ac.nz/policy/StaffConduct).

## **Academic Grievances**

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website:

[www.vuw.ac.nz/policy/AcademicGrievances](http://www.vuw.ac.nz/policy/AcademicGrievances).

## **Academic Integrity and Plagiarism**

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows:

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

*'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.*

### ***Plagiarism is not worth the risk.***

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct ([www.vuw.ac.nz/policy/studentconduct](http://www.vuw.ac.nz/policy/studentconduct)) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course.

*Find out more about plagiarism and how to avoid it, on the University's website at: [www.vuw.ac.nz/home/studying/plagiarism.html](http://www.vuw.ac.nz/home/studying/plagiarism.html).*

## **Students with Disabilities**

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: [disability@vuw.ac.nz](mailto:disability@vuw.ac.nz). The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

## **Student Support**

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at [www.vuw.ac.nz/st\\_services/](http://www.vuw.ac.nz/st_services/) or email [student-services@vuw.ac.nz](mailto:student-services@vuw.ac.nz).

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email [education@vuwsa.org.nz](mailto:education@vuwsa.org.nz).

### **Maori and Pacific Mentoring programme (Manaaki Pihipihinga)**

This is a free programme of mentoring for Maori and Pacific students doing first year courses within the Faculty of Commerce and Administration. Weekly one hour mentoring sessions: drafting and editing assignments/discussing any questions that you might have from tutorials or lectures and going over every aspect of essay writing, either in small group sessions or on a one-to-one basis.

This includes:

- A computer suite hooked up to cyber commons for students to use to produce their assignments.
- Regular skill-based workshops with a learning adviser from Student Learning Support Services.
- Networking with other Maori and Pacific support groups throughout the university.

For more information please contact:

Melissa Dunlop, Programme Coordinator

Ph: 463 6015 or Email: [Maori-Pacific-Mentoring@vuw.ac.nz](mailto:Maori-Pacific-Mentoring@vuw.ac.nz)