

School of Economics and Finance

MOFI 402: CORPORATE FINANCE

Trimester Two 2006

COURSE OUTLINE

Contact Details

The course co-ordinator and lecturer is Martin Lally, RH 301, Ph 463-5998, martin.lally@vuw.ac.nz.

Class Times and Room Numbers

Thursday, 1.40pm – 4.30pm, RLWY 126.

There will be a final exam during the examination period October 19-November 11.

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.

Expected Workload

A minimum of 15 hours per week, comprising 3 hrs for the class, 3 hrs in preparing the assignment, 5 hrs in undertaking the background reading, and 4 hrs in researching and writing the essay.

Materials and Equipment

Electronic calculators may be used in examinations. Calculators must be non-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 13** (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 13
2. Capital Structure
 - (a) Non debt Tax Shields: July 20
 - (b) Constant Market Value Leverage: July 27
3. Cost of Capital
 - (a) Estimation of the market risk premium: Aug 3, 10, 17
 - (b) Estimation of beta: Sept 7, 14
4. Capital Budgeting:
 - (a) Multiperiod discounting in a CAPM world: Sept 21
 - (b) Determination of pure security prices by CAPM and OPM: Sept 28
5. Dividend Policy:
 - (a) Equilibrium Dividend Policy Under Personal Taxation: Oct 5

Readings

Students should first be familiar with the mathematics in

Copeland, T. and Weston, J., *Financial theory and Corporate Policy*, 4th edition, Pearson Addison-Wesley, 1988, Appendix 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., Weston, J. and Shastri, K., *Financial Theory and Corporate Policy*, 4th edition, Pearson Addison-Wesley, 2005, Ch. 1, Ch 2 A-B.

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

2. Capital Structure:

Copeland, T., Weston, J. and Shastri, K., *Financial Theory and Corporate Policy*, 4th edition, Pearson Addison-Wesley, 2005, Ch. 15, A-B, F-H.

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., Weston, J. and Shastri, K., *Financial Theory and Corporate Policy*, 4th ed., Pearson Addison-Wesley 2005, Ch 15, C-D.

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.

Bernstein, P. and Arnott, R. 2003, "Earnings Growth: The Two Percent Dilution", *Financial Analysts Journal*, Sept-Oct, pp. 47-55.

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-C.

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.

5. Dividend Policy:

Copeland, T., Weston, J. and Shastri, K., *Financial Theory and Corporate Policy*, 4th edition, Pearson Addison-Wesley, 2005, Chapter 16, A-B.

DeAngelo, H. and Masulis, R., "Leverage and Dividend Irrelevancy Under Corporate and Personal Taxation", *Journal of Finance* 35 (1980), pp. 453-467.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services 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. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

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

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education 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 is available for the following:

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

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at www.vuw.ac.nz.

Student 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 are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy website at 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.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Coordinators are available to assist in 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 at 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. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

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

Find out more about plagiarism, and how to avoid it, on the University's website at www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Impairments

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as 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, 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 (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email disability@vuw.ac.nz. The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

Student Support

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email student-services@vuw.ac.nz) is available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/.

VUWSA employs 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 (tel. (04) 463 6983 or (04) 463 6984, email education@vuwsa.org.nz) is located on the ground floor, Student Union Building.

Manaaki Pihipihinga - Māori and Pacific Mentoring Programme (Faculty of Commerce and Administration)

This is a mentoring service for Māori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta
Room 210, Level 2
Railway West Wing
Tel. (04) 463 8997
Email: Puawai.Wereta@vuw.ac.nz

Fa'afai Seiuli
Room 109 B
14 Kelburn Parade
Tel. (04) 463 5842
Email: Faafoi.Seiuli@vuw.ac.nz