

School of Economics and Finance

## MOFI 201 FINANCE

Trimester One 2008

### COURSE OUTLINE

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#### Contact Details

Lecturer: Dr Stephen Keef - Course Coordinator  
Office: RH 302 - Phone: 463-5239 extn: 5239  
Email: [Stephen.Keef@vuw.ac.nz](mailto:Stephen.Keef@vuw.ac.nz)

Lecturer: Dr Lyndon Moore  
Office: RH 422 – Phone: 463-6963 extn: 6963  
Email: [Lyndon.Moore@vuw.ac.nz](mailto:Lyndon.Moore@vuw.ac.nz)

Administration : Suzanne Freear – RH 327, Phone: 463-5380 extn: 5380  
[Suzanne.Freear@vuw.ac.nz](mailto:Suzanne.Freear@vuw.ac.nz)

#### Class Times and Room Numbers

Lectures Times: Monday, Tuesday and Friday : 9.30am-10.20am GBLT1  
Wednesday, Thursday and Friday : 10.30am-11.20am RH LT1

#### Tutorial Times

Tutorials will be arranged through the VUW system – see Blackboard for further information.

Tutorials will be conducted weekly, beginning in the second week of term. Tutorial assignments are available on blackboard and written answers must be brought by students to tutorials.

#### Communication of Additional Information

Course materials, notices and any other new/additional information will be posted on **Blackboard** – <http://blackboard/vuw.ac.nz> Students should always refer to **Blackboard** for information pertaining to this course. Any further queries can be directed to Suzanne Freear, Administrator – RH 327 phone: 463-5380 (internal: extn: 5380.)

## Course Content

### Provisional Lecture Outline

Week	Topic	Chapter Readings
1.	Net Present Value Method	4
2.	Valuing Bonds and Shares	5.1 – 5.4
3.	Term Structure of Interest Rates	5A
4.	Alternative Investment Rules	6
5.	Portfolio Theory	9 & 10.1 – 10.6
and	<b>TERMS TEST I</b>	
6.	CML and CAPM models	10.7 – 10.10 and 12.1 – 12.4
7.	Efficient Markets Hypothesis (EMH)	13
8.	Efficient Markets Hypothesis (EMH)	13
and	<b>TERMS TEST II</b>	
9.	Capital Structure Theory	15 & 16
10.	Capital Structure Theory	15 & 16
11.	Capital Budgeting	7 & 12
12.	Capital Budgeting	17.7

## Course Objectives

The goal of the course is to provide a solid base to permit students to undertake advanced finance courses and/or to engage in further self-study.

A student must be able to demonstrate a solid understanding of the following key concepts in the final examination:

- Net Present Value - ability to evaluate cash flow streams using the NPV method;
- Term Structure of Interest Rates - ability to examine the relationship between the yield to maturity and the term to maturity. An understanding of market segmentation, unbiased expectations and the liquidity premium;
- Alternatives to the NPV method with ability to compare the usefulness of the payback method, the accounting rate of return method and the internal rate of return method when faced by two or more mutually exclusive investment opportunities;
- Portfolio Theory - understanding of the relation between the expected return of a portfolio and the portfolio's riskiness;
- Capital Asset Pricing Model (CAPM) – understanding of the differences between systematic and unique/unsystematic risk; ability to use CAPM model to quantify risk and return relationship;
- Efficient Market Hypothesis (EMH) – ability to understand the implications of the three forms of market efficiency for asset prices;
- Capital Structure – understanding of a firm's choice of financing – debt versus equity – an ability to calculate the effects of a firm's debt/equity choice on the firm's value;
- Capital Budgeting – ability to comprehend a basic business plan, interpret the cash flows from the business plan and evaluate whether the plan is profitable.

Students that can not demonstrate a solid understanding of **at least** six out of the eight concepts can expect to fail the course.

### Expected Workload

It is estimated that the workload will average out at approximately 17 hours per week including lecturers and tutorials.

Attending all lectures, solving tutorial problems in advance of the tutorial, attending all tutorials and reading the relevant chapters of the textbook are essential to pass the course.

### Readings

The course textbook is :

Ross, S. A., Westerfield, R. W., Jaffe, J. & Jordan, B. D. "Modern Financial Management", 8th ed, Irwin, McGraw-Hill, 2008.

The prescribed reading should be done prior to the relevant lectures.

### Assessment Requirements

50 minute Terms Test – Week 5. 25%

*Topics covered:* Net Present Value Method, Valuing Bonds and Shares, Term Structure of Interest Rates.

50 minute Terms Test - Week 8. 25%

*Topics covered:* Alternative Investment Rules, Portfolio Theory, CML and CAPM Models.

Final 2 hour Registry Examination, covering the whole course 50%  
(1<sup>st</sup> trimester examination period between - 9<sup>th</sup> - 25<sup>th</sup> June, 2008.)

If it will benefit the student, overall assessment will be based on performance in the final Registry Examination.

*Note:* Dates, times and places of Terms Tests to be advised. The room allocation will be detailed later on Blackboard.

Only non-programmable calculators (those **without** a full set of alphabetic keys) are permitted at examinations. A standard 7<sup>th</sup> Form calculator will be adequate.

### Mandatory Course Requirements

There are no mandatory course requirements for this course.

### Other Finance Courses

Finance is a mathematically oriented subject. Consequently students who anticipate undertaking MOFI 301/305 or MOFI 400 level, or who anticipate working in the finance industry are strongly advised to incorporate more maths/stats into their degree than is prescribed as prerequisites for MOFI 201. The relevant statistics courses (beyond QUAN 102 or equivalent) are STAT 231 or QUAN 201, followed by QUAN 301, QUAN 304, STAT 331

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### **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 students 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 penalized 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:

[www.victoria.ac.nz/home/studying/plagiarism.html](http://www.victoria.ac.nz/home/studying/plagiarism.html)

### **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 6015. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.