

VICTORIA INTERNATIONAL APPLIED FINANCE PROGRAMME  
School of Economics and Finance

**MMAF502 CORPORATE FINANCE**

Trimester 2, 2015

**COURSE OUTLINE**

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**Names and Contact Details**

The course lecturer is Tina Wendel.  
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Phone: please contact via email

The administrator for this course is Rachel Zhang.  
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**Trimester Dates**

The study and assessment period is Monday 2nd – Monday 20 October.

Block Release Times:

Tuesday, 1<sup>st</sup> September 2015, 9:00am – Thursday, 3<sup>rd</sup> September 2015, 1pm

Tuesday, 27<sup>th</sup> October 2015, 9:00am – Thursday, 29<sup>th</sup> October 2015, 1pm

**Withdrawal from Course**

1. Your fees will be refunded if you withdraw from this course on or before Friday 24<sup>th</sup> July 2014.
2. The standard last date for withdrawal from this course is Friday 25<sup>th</sup> September. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an '*Application for Associate Dean's Permission to Withdraw Late*' including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks.

**Block Release Times and Room Numbers**

Block Release One:

Tuesday, 1<sup>st</sup> September 2015, 9:00am – Thursday, 3<sup>rd</sup> September 2015, 1pm

Lecture Location: **AM102**

Lab Location: KK216

Test Location: AM102/104

### Block Release Two:

Tuesday, 27<sup>th</sup> October 2015, 9:00am – Thursday, 29<sup>th</sup> October 2015, 1pm

Lecture Location: **MY632**

Lab Location: KK216

Test Location: MY631/632

### **Course Delivery**

The contact hours of the course will be during the two block releases detailed above. During the rest of the trimester, students will be expected to be engaged in self-directed study using their textbooks and material posted on Blackboard, and completing assignments which will be posted on Blackboard.

**Attendance at all sessions of both block releases is compulsory.**

### **Group Work**

There is no group work outside of the block release.

### **Expected Workload**

The expected workload for the average student is 200 hours. During the approximately 6 weeks of term prior to each block release, students will need to allow about 14 hours per week for study, research and preparation of assignments for this course. The two block courses each involve approximately 18 hours of work.

### **Prescription**

An in-depth review of the interface between corporate finance and the markets, from the vantage point of the corporate treasurer. Cash flow analysis, discounting in various forms, the cost of capital, the process of setting risk premiums, and internal use of capital. Principles of corporate value, the role of debt and taxation, the valuation of cash flows and companies and long term financing.

### **Course Learning Objectives**

On completion of the course, students should:

- (a) Explain the concept of value creation and critically analyse business decisions with a focus on value maximisation.
- (b) Analyse the investment appraisal process and apply the main appraisal techniques to projects and explain their advantages and disadvantages. Critically analyse how the theme of value creation is operationalised through the net present value concept. Demonstrate how to estimate relevant cash flows and apply risk mitigation techniques.
- (c) Explain the concept of risk and return and critically discuss and apply the capital asset pricing model and the weighted average cost of capital in the context of project appraisals.
- (d) Explain and analyse how capital structure decisions create shareholder value and its implication on the value of the firm and the cost of capital.
- (e) Critically explain the benefits and disadvantages created by leverage in a world with taxes and without taxes and its implications on the cost of capital and estimate a project's appropriate discount rate analysing business and financial risk.
- (f) Critically evaluate the limitations to the use of debt.
- (g) Apply financial techniques for pricing of corporate bonds and equity instruments and critically analyse the factors impacting the value of those financial instruments.
- (h) Evaluate various types of financing options available to the firm and critically apply various assessment factors such as flexibility, risk, income, costs and timing associated with each of the financing alternatives.

- (i) Apply various company valuation approaches to estimate the value of the firm and critically analyse the advantages and limitation of each the valuation approaches.
- (j) Critically apply various financial analysis techniques in real-world financial cases studies.

**Course Content**

The course provides a thorough understanding of the fundamental concepts of Corporate Finance. A detailed lecture schedule is provided attached to this course outline.

**Readings**

Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe. Corporate Finance. McGraw-Hill Irwin; New York, 10<sup>th</sup> Edition, 2013

Other material, such as case studies, will be provided on blackboard.

**Materials and Equipment**

It is necessary to bring a calculator to the block courses. A good financial calculator such as the HP17BII or HP10BII is required. You should also have access to Excel from Microsoft Office (this is available in the student labs on campus).

**Assessment**

From Trimester 1, 2014, a revised Assessment Handbook will apply to all VUW courses: see <http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

In particular, there will be a new grade scheme, in which the A+ range will be 90-100% and 50-54% will be a C-.

Your final grade is based upon two assignments (20%) and two tests (80%). The tests are each 1.5 hours in length and conducted at the end of each block release. Due dates and the associated learning objectives are defined below:

<b>Assessment</b>	<b>Due Date</b>	<b>Learning Objectives</b>	<b>Total Grade Percentage</b>	<b>Times Allowed in Minutes</b>
Assignment 1	21 <sup>st</sup> August 2015, 6pm	(a) to (d)	15%	
Test 1	3 <sup>rd</sup> September 2015	(a) to (d)	35%	90 minutes
Assignment 2	16 <sup>th</sup> October 2015, 6pm	(e) to (j)	15%	
Test 2	29 <sup>th</sup> October 2015	(e) to (j)	35%	90 minutes

*Test 1 will be held on Thursday, 3<sup>rd</sup> September at 11.30am to 1pm in AM102.*

*Test 2 will be held on Thursday, 29<sup>th</sup> October at 11.30am to 1pm in MY632.*

**Penalties**

Each of the assignments will be marked out of a maximum that diminishes by 5% for every day late. Please note that the weekend no longer counts as one day (i.e. if an assignment is due by 6pm Friday and you hand it in 3pm Sunday, you will be penalized for 2 days). Please carefully read the assignment guidelines for details of how assignments should be submitted. There will be a final cut-off date, one week after the due date for each assignment, after which no assignment can be accepted.

### **Use of Turnitin**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and submitted to Turnitin. A copy of submitted materials will be retained on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

### **Mandatory Course Requirements**

Attendance at all sessions of both block releases is compulsory.

If you have, or become aware of, any health condition that could prevent your attending a VIAF compulsory block release, then you should notify the Programme Director immediately, preferably by email to [viaf.programme@vuw.ac.nz](mailto:viaf.programme@vuw.ac.nz)

If you cannot complete an assignment or sit a test or examination, refer to [www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat](http://www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat)

### **Communication of Additional Information**

Course documents and other information will be available on the course website at <http://blackboard.vuw.ac.nz>. Announcements will also be posted there.

### **Student feedback**

Student feedback on University courses may be found at [www.cad.vuw.ac.nz/feedback/feedback\\_display.php](http://www.cad.vuw.ac.nz/feedback/feedback_display.php)

### **Link to general information**

For general information about course-related matters, go to <http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

### **Note to Students**

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

## Lecture and Reading Schedule

Lecture notes	Topic	Content	Chapter readings
<b>BLOCK RELEASE ONE – 1<sup>st</sup> to 3<sup>rd</sup> September 2015</b>			
1	Introduction and foundation	Introduction, discounted cash flows, compounding, discounting	Chapter 4
2	Financial evaluation of investment opportunities	NPV, incremental cash flows, risk analysis, IRR and other investment rules; Tutorials	Chapters: 5, 6.1, 6.2, 7.1
3	Case Study	Case study: Goodweek Tires	Case study
4	Risk and Return	Returns, Statistics, Return and risk for portfolios, CAPM	Chapters: 10, 11.1 – 11.6, 11.9
5	Special topic	Guest lecture: Deloitte Actuary services – Practical examples in the financial services sector	
6	Capital Structure and Cost of Capital	MMI, MMII, Cost of Capital – without taxes	Chapters: 16.1 to 16.4, 13.1 – 13.4, 13.6 - 13.9
<b>BLOCK RELEASE TWO – 27<sup>th</sup> to 29<sup>th</sup> October 2015</b>			
7	Capital Structure and Cost of Capital	MMI, MMII, Hamada, Cost of Capital – with taxes	Chapters: 16.5, 18.5, 18.7
8	Capital Structure and limits to the use of debt	Cost of financial distress and the market value of the firm, Trade-off theory	Chapter: 17
9	Corporate bonds	Bonds features and pricing	Chapters: 15, 8
10	Common stock	Common stock features and Dividend Discount Model valuation	Chapters: 9.1 – 9.3
11	The financing decision	Financial decision framework FRICTO, EBIT-EPS charts, Financial ratios concerning Income and Risk	Chapter 3.2
12	Case Study	Case study: Continental Carriers Inc, Debt vs. equity finance	Case Study
13	Company valuations	Company Comparables, Transaction Comparable, DCF – Weighted Average Cost of	Blackboard: <ul style="list-style-type: none"> <li>• Damodaran: pages 400 to 420</li> </ul>

		Capital, DCF – Adjusted Presents Value	<ul style="list-style-type: none"> <li>• Case study by J. Fred Weston, The Exxon-Mobil Merger: An Archetype</li> <li>• Weston, pp. 232 to 236</li> </ul> <p>Chapters: 16.3, 18.1, 18.3, 18.4, 18.6</p>
14	Case Study	Case study Nike Inc.: Cost of capital and intrinsic value of equity	Case Study

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