



The University of Southern Queensland

## Course specification

The current and official versions of the course specifications are available on the web at <http://www.usq.edu.au/coursespecification/current>.  
Please consult the web for updates that may occur during the year.

### Description: Finance Theory and Applications

Subject	Cat-nbr	Class	Term	Mode	Units	Campus
FIN	2101	82021	6, 2008	EXT	1.00	Toowoomba

<b>Academic group:</b>	FOBUS
<b>Academic org:</b>	FOB008
<b>Student contribution band:</b>	3A
<b>ASCED code:</b>	081101

### STAFFING

Examiner: Boyd Scheuber

### REQUISITES

Pre-requisite: FIN1101 and STA2300

### OTHER REQUISITES

Recommended: Pre-requisite FIN1103. Students are required to have access to a personal computer, e-mail capabilities and Internet access to USQConnect. Current details of computer requirements can be found at <http://www.usq.edu.au/business/aboutfob.htm>.

### SYNOPSIS

This course extends the material presented in FIN1101 and also introduces further more advanced theory and applications thereof. Firstly, some fundamental issues in finance such as the consumption/investment trade-off and the interaction of that decision with capital markets (under conditions of certainty) are introduced. The arithmetic of mean-variance portfolio theory is then presented. This allows portfolio theory to be developed, which then leads into the presentation of the related capital asset pricing model together with two important applications. The net present value methodology is then extended into the new and more sophisticated area of real options. The valuation of real options is further developed by way of the binomial pricing process. The important 'existence' issue of an optimal capital structure is then examined by way of the propositions resulting from Modigliani and Miller's analysis together with some alternative theories of capital structure. Empirical evidence on capital structure is examined and the various theories of capital structure assessed from a practical point of view. Various methods of evaluating the levered firm are then developed with emphasis given to the incidence of taxes. Finally, the interesting and important area of mergers, acquisitions and governance is explored.

### OBJECTIVES

The course objectives define the student learning outcomes for a course. The assessment item/s that may be used to assess student achievement of an objective is/are shown in parentheses after each objective. On successful completion of this course, students should be able to:

1. explain how a company's manager can make financial decisions that will be supported by all shareholders through the existence of a capital market which in turn determines an optimal investment/dividend policy under conditions of certainty (Mid-semester Test, Examination)
2. calculate all the necessary measures of risk and return that become the building blocks of mean-variance portfolio theory (Mid-semester Test, Examination)
3. understand and apply modern portfolio theory together with the related capital asset pricing model in appropriate circumstances (Mid-semester Test, Examination)
4. understand that real options are a new and more sophisticated form of net present analysis, where the value of flexibility is taken into account and then extend real option valuation further to incorporate the binomial pricing process using the risk-neutral probability approach (Examination)
5. analyse and advise management in respect of capital structure decisions, including the major theories of capital structure (Examination)
6. outline the empirical evidence from recent studies on capital structure and assess the implications of the evidence for the trade-off, pecking order and free cash flows theories (Examination)
7. examine the interaction of the investment and financing decisions, and apply techniques for incorporating the effects of the financing decision into capital budgeting (Examination)
8. provide a framework of analysis for mergers and acquisitions and discuss the issues related to corporate control and governance (Examination).

## TOPICS

Description	Weighting (%)
1. Consumption, investment and the capital market	8.00
2. Portfolio risk/return analysis	8.00
3. Portfolio theory	10.00
4. CAPM and its applications	10.00
5. Real options I	8.00
6. Real options II	14.00
7. Principles of capital structure	14.00
8. Capital structure decisions	10.00
9. Investment and financing decisions	10.00
10. Mergers, corporate control and governance	8.00

## TEXT and MATERIALS required to be PURCHASED or ACCESSED

ALL textbooks and materials are available for purchase from USQ BOOKSHOP (unless otherwise stated). Orders may be placed via secure internet, free fax 1800642453, phone 07 46312742 (within Australia), or mail. Overseas students should fax +61 7 46311743, or phone +61 7 46312742. For costs, further details, and internet ordering, use the 'Textbook Search' facility at <http://bookshop.usq.edu.au> click 'Semester', then enter your 'Course Code' (no spaces).

Copeland, T & Antikarov, V 2003, *Real options: a practitioner's guide*, Texere, New York.

Peirson, G, Brown, R, Easton, S, Howard, P & Pinder, S 2006, *Business finance*, 9th edn, McGraw-Hill, North Ryde, New South Wales.

Summers, J & Smith, B 2006, *Communication skills handbook: how to succeed in written and oral communication*, 2nd edn, John Wiley & Sons, Milton, Queensland.

## REFERENCE MATERIALS

Reference materials are materials that, if accessed by students, may improve their knowledge and understanding of the material in the course and enrich their learning experience.

Atrill, P 2006, *Financial management for decision makers*, 4th edn, Financial Times Prentice Hall, New York.

Besley, S & Brigham, EF 2008, *Essentials of managerial finance*, 14th edn, Thomson/South Western, Mason, Ohio.

Brealey, RA, Myers, SC & Allen, F 2008, *Principles of corporate finance*, 9th edn, McGraw-Hill/Irwin, Boston, Massachusetts.

Damodaran, A 2001, *Corporate finance: theory and practice*, 2nd edn, John Wiley & Sons, New York.

Emery, DR, Finnerty, JD & Stowe, JD 2007, *Corporate financial management*, 3rd edn, Pearson Prentice Hall, Upper Saddle River, New Jersey.

Ross, SA, Westerfield, RW & Jaffe, J 2008, *Corporate finance*, 8th edn, McGraw Hill/Irwin, Boston, Massachusetts.

Scott, DF, Martin, JD, Petty, JW & Keown, AJ 2000, *Basic financial management*, 8th edn, Prentice Hall, Upper Saddle River, New Jersey.

Van Horne, JC 2002, *Financial management and policy*, 12th edn, Prentice Hall, Upper Saddle River, New Jersey.

Van Horne, JC & Wachowicz, JM Jr 2005, *Fundamentals of financial management*, 12th edn, FT Prentice Hall, Essex, England.

## STUDENT WORKLOAD REQUIREMENTS

ACTIVITY	HOURS
Assessments	20.00
Directed Study	48.00
Private Study	93.00

## ASSESSMENT DETAILS

Description	Marks out of	Wtg (%)	Due date
MID-SEMESTER TEST	200.00	30.00	15 Sep 2008 (see note 1)
2 HOUR EXAMINATION	100.00	70.00	END S6 (see note 2)

### NOTES

1. The mid-semester test will be held in tutorial class time (for applicable students). Mid-semester tests are the responsibility of the examiner. The faculty has no jurisdiction over mid-semester tests, hence all correspondence and documentation needs to be forwarded directly to the examiner.
2. The examination is scheduled to be held in the end-of-semester examination period. Students will be advised of the official examination date after the timetable has been finalised.

## IMPORTANT ASSESSMENT INFORMATION

- 1 Attendance requirements:  
It is the students' responsibility to attend and participate appropriately in all activities (such as lectures, tutorials, laboratories and practical work) scheduled for them, and to study all material provided to them or required to be accessed by them to maximise their chance of meeting the objectives of the course and to be informed of course-related activities and administration.
- 2 Requirements for students to complete each assessment item satisfactorily:  
To satisfactorily complete an individual assessment item a student must achieve at least 50% of the marks. (Depending upon the requirements in Statement 4 below, students may not have to satisfactorily complete each assessment item to receive a passing grade in this course.)
- 3 Penalties for late submission of required work:  
If students submit assignments after the due date without prior approval of the examiner, then a penalty of 5% of the total marks gained by the student for the assignment may apply for each working day late up to ten working days at which time a mark of zero may be recorded.
- 4 Requirements for student to be awarded a passing grade in the course:  
To be assured of receiving a passing grade a student must achieve at least 50% of the total weighted marks available for the course.
- 5 Method used to combine assessment results to attain final grade:  
The final grades for students will be assigned on the basis of the aggregate of the weighted marks obtained for each of the summative assessment items in the course.
- 6 Examination information:  
This is a restricted examination. Candidates are allowed access to specific materials during the examination. The only materials that candidates may use in the restricted examination for this course are: writing materials (non-electronic and free from material which could give the student an unfair advantage in the examination); calculators which cannot hold textual information (students must indicate on their examination paper the make and model of any calculator(s) they use during the examination). It is essential that students attempting this course have a quiet battery-operated non-programmable calculator, such as the Casio

- fx-82TL scientific calculator, or an equivalent. Students are not permitted to take mobile telephones, pagers or other electronic means of communication into the examination room.
- 7 Examination period when Deferred/Supplementary examinations will be held:  
Any Deferred or Supplementary examinations for this course will be held during the next examination period.
  - 8 University Regulations:  
Students should read USQ Regulations 5.1 Definitions, 5.6 Assessment, and 5.10 Student Academic Misconduct for further information and to avoid actions which might contravene university regulations. These regulations can be found at <http://www.usq.edu.au/corporateservices/calendar/part5.htm>. Students should also read the Faculty of Business Policies and Procedures which can be found at <http://www.usq.edu.au/business/aboutfob.htm>.

## ASSESSMENT NOTES

- 1 Assignments: (i) The due date for an assignment is the date by which a student must despatch the assignment to the USQ. The onus is on the student to provide proof of the despatch date, if requested by the examiner. (ii) Students must retain a copy of each assignment submitted for assessment. This must be produced within 24 hours if required by the examiner. (iii) In accordance with the university's assignment extension policy (regulation 5.6.1), the examiner of a course may grant an extension of the due date of an assignment in extenuating circumstances. All applications for assignment extensions must be accompanied by appropriate supporting documentation. Under no circumstances will assignments submitted more than two calendar weeks after the due date be accepted. (iv) Assignments are to be submitted in the appropriate assignment folders. (v) The examiner will not accept submission of assignments by facsimile.
- 2 Course weightings: Weightings of topics should not be interpreted as applying to the number of marks allocated to questions testing those topics in an examination paper. The examination may test material already tested in assignments.
- 3 Dishonest actions: (i) Any student who is alleged to have performed a dishonest action relating to any assessment in the course will have a course of action taken against him/her as outlined in the academic regulations. (ii) Pieces of assessment should be the work of individual students. Joint pieces of assessment are not permitted unless written approval has been obtained from the examiner. (iii) Dishonest action in relation to assessment includes: copying or attempting to copy the work of others; use of or attempting to use information prohibited from use in that form of assessment; submitting the work of another as your own; consciously committing acts of plagiarism, that is, taking and using another's thoughts or writings as one's own with intent to deceive, which occurs when paragraphs, sentences, a single sentence or significant parts of a sentence which are copied directly, are not enclosed in quotation marks and appropriately footnoted or referenced in the text; direct quotations are not used, but text is paraphrased or summarised, and the source of the material is not acknowledged by footnoting or other reference in the text.