This unit introduces the basic concepts in financial management. Topics include capital markets and sources of finance; financial mathematics; capital budgeting; diversification and portfolio theory; risk and return relationships; and working capital management.
Contact details

<table>
<thead>
<tr>
<th>Unit Web Site URL</th>
<th>QuickPlace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lecturer</td>
<td>Dr Ian Dunlop</td>
</tr>
<tr>
<td>Email:</td>
<td><a href="mailto:idunlop@gsm.uwa.edu.au">idunlop@gsm.uwa.edu.au</a></td>
</tr>
<tr>
<td>Phone:</td>
<td>64882972</td>
</tr>
<tr>
<td>Fax:</td>
<td>64881072</td>
</tr>
<tr>
<td>Consultation Hours:</td>
<td>9.00am to 9.00pm week days by email appointment.</td>
</tr>
<tr>
<td>Lecture Times:</td>
<td>Monday 6.00pm to 9.00pm</td>
</tr>
<tr>
<td></td>
<td>Wednesday 2.00pm to 5.00pm.</td>
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<tr>
<td></td>
<td>Thursday 6.00pm to 9.00pm</td>
</tr>
<tr>
<td>Lecture Venue:</td>
<td>Myers Lecture Theatre</td>
</tr>
</tbody>
</table>

Your lecturer

Dr Ian Dunlop  BSc Well, BCom (Hons) NSW, PhD Qld.

Ian worked for CSR Ltd for 11 years after completing his BSc. During this time he did a part-time BCom(Hons) at the University of NSW. He then taught for 12 years in Queensland and completed his PhD at the University of Queensland. He has taught at UWA for 17 years, mainly in MBA courses. His main areas of research and consulting are derivative securities and option pricing.

Introduction

Welcome to Managerial Finance from Ian Dunlop. I hope that you will enjoy this unit and it will be of use to you not only in your professional life but in your personal life as well.

This core unit presents a basic set of financial concepts and tools which managers need to make sound decisions when considering a wide range of financial problems facing the firm. Students who take this unit will gain a clear understanding of the principles underlying the effective use of financial capital in an uncertain environment and how to create value when faced with many possible investment projects. As this is a first principles course at the graduate level, students will gain experience in applying a range of analytical tools and techniques, and have the chance to exercise these tools in diverse problem settings.

A sampling of topics covered in this course (in addition to those listed in the unit description) includes subjects such as: why finance is useful for managers; the financial foundations of the firm; the institutional setting of finance, methods of investment appraisal, portfolio theory, risk management using derivatives and current asset management.
The goal of the unit

Managerial Finance aims to develop in student’s ability to

• understand how managers approach financial problems,
• recognise the fundamental financial component in problems and issues commonly faced by managers,
• identify and break down key financial problems which play a role as determinants of business and organisational outcomes,
• carry out financial analyses of management problems to facilitate management decision making,
• interpret and present the results of finance analysis in a useful format for those non-financial managers,
• understand the organisation’s interface with the external financial environment.

Broad learning outcomes

On completion of this unit, you should be able to:

• identify and describe the internal and external financial structures of which their organisation is a part
• assess where and how to finance projects which the firm is considering
• determine whether or not to undertake a particular investment project,
• understand the relationship between risk and return when evaluating different investments,
• discuss the pros and cons of various investment vehicles.
• understand the use of derivative securities in managing risk

Completion of this unit will also enable enrolment in other finance courses (contingent on prerequisites) both inside and outside of the Graduate School of Management.

Prerequisites

This unit assumes that students have an operational competency in Excel or another spreadsheet and have a basic knowledge of mathematics. Basic mathematics is used extensively in finance and if you have any doubts of your competency please talk to Ian Dunlop.

If you are not well prepared in any of the above areas you should make every effort to remedy the situation through undertaking additional refresher courses and/or practice. Do not hesitate to ask for advice from your lecturer.

Software requirements

A spreadsheet and a word processor
Textbook(s)

Recommended/required text(s)

Additional/Suggested/Alternate text(s)


Frino et al; “Introduction to Corporate Finance” Pearson Prentice Hall, 2004


Unit web site

The web site for your text is:
QuickPlace

Key dates

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week Commencing 17 October 2005</td>
<td>Midterm Test</td>
</tr>
<tr>
<td>Week Commencing 14 November 2005</td>
<td>Assignment Due</td>
</tr>
<tr>
<td>Week Commencing 28 November 2005</td>
<td>Final Exam</td>
</tr>
</tbody>
</table>
### Seminar topics

Managerial Finance is conducted in 12 sessions. This outline gives an overview of the topics covered in each session, as well as accompanying readings and problems.

<table>
<thead>
<tr>
<th>Week Commencing</th>
<th>Topic</th>
<th>Readings = E</th>
<th>Problems = P</th>
<th>Questions = Q</th>
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<tbody>
<tr>
<td>Week 1 5 September</td>
<td>Course Introduction, Survey of Topics in Finance</td>
<td>PBEH Ch 1</td>
<td>1.8, 1.9, 1.10, 1.11, 1.12, 1.13, 1.14 &amp; 1.15</td>
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<tr>
<td>Week 2 12 September</td>
<td>Consumption, Investment and the Capital Market</td>
<td>PBEH Ch 2</td>
<td>Q. 2.2, 2.3, 2.5, 2.7, 2.11, 2.12, 2.13, 2.14, 2.15</td>
<td>P. 2.1, 2.2, 2.3, Case Study 2*</td>
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<tr>
<td>Week 3 19 September</td>
<td>The Capital Market and Sources of Funds</td>
<td>PBEH Ch 8, 9, 10, 11</td>
<td>Q. 8.1, 8.2, 8.4, 8.5</td>
<td>P. 9.1, 9.2, 9.3, 9.4, 10.1, 10.2, 10.5, 10.6, 10.7, 10.8, 10.9, 10.14, 11.1, 11.5, 11.8, Case Studies 10 &amp; 11*</td>
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<tr>
<td>Week 4 26 September</td>
<td>Financial Mathematics</td>
<td>PBEH Ch 3</td>
<td>P. 3.3, 3.6, 3.7, 3.10, 3.11, 3.12, 3.13, 3.14, 3.17</td>
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<tr>
<td>Week 5 3 October</td>
<td>Financial Mathematics (cont)</td>
<td>PBEH Ch 3</td>
<td>P. 3.20, 3.21, 3.22, 3.23, 3.27, 3.32, 3.33, 3.37, Case Study 3*</td>
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<td>Week 6 10 October</td>
<td>Security Valuation and Weighted Average Cost of Capital</td>
<td>PBEH Ch 4, 15</td>
<td>P. 4.2, 4.3, 4.4, 4.5</td>
<td>Q. 4.3, 4.4, Q. 15.1, 15.3, 15.5, 15.6, 15.7, P. 15.1, Case Study 4*</td>
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<td>Week 7 17 October</td>
<td>Midterm Test Investment Decisions</td>
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<tr>
<td>Week 8 24 October</td>
<td>Investment Decisions</td>
<td>PBEH Ch 5, PBEH Ch 6</td>
<td>Q. 5.4, 5.1, 5.2, 5.3, 5.7</td>
<td>P. 6.1, 6.2, 6.3, 6.4, Case Study 5*</td>
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<td>Week 9 31 October</td>
<td>Portfolio Theory</td>
<td>PBEH Ch 7</td>
<td>Q. 7.3, 7.5, 7.9</td>
<td>P. 7.4, 7.5, 7.7, 7.8, Case Study 7*</td>
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<tr>
<td>Week 11 14 November</td>
<td>Derivative Securities</td>
<td>PBEH Ch 19</td>
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</table>
Attendance

Participation in class, whether it be listening to a lecture or getting involved in other activities, is an important part of the learning process. For this reason the GSM has decided not to move to on-line teaching. It is, therefore, important that you attend classes (and be on time).

More formally, the University regulations state that ‘to complete a course or unit students shall attend prescribed classes, lectures, seminar and tutorials’. Students whose attendance at MBA units has been unsatisfactory will not be granted a pass grade. More than two missed classes without prior permission from the lecturer is classified as unsatisfactory. Students should not expect to obtain approval to miss more than two classes per unit, unless there are exceptional circumstances.

Assessment

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
<th>Due date (Week Commencing)</th>
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<tbody>
<tr>
<td>Mid Term Test</td>
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<td>17 October 2005</td>
</tr>
<tr>
<td>Assignment</td>
<td>25%</td>
<td>14 November 2005</td>
</tr>
<tr>
<td>Final Examination</td>
<td>50%</td>
<td>28 November 2005</td>
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</table>

The purpose of assessment

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work then gives you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.
The standard of assessment

The Graduate School must ensure that the processes of assessment are fair and are designed to maintain the standards of the School and its students. The School follows the University of Western Australia’s grading system:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>HD</td>
<td>80-100%</td>
</tr>
<tr>
<td>D</td>
<td>70-79%</td>
</tr>
<tr>
<td>CR</td>
<td>60-69%</td>
</tr>
<tr>
<td>P</td>
<td>50-59%</td>
</tr>
<tr>
<td>N+</td>
<td>45-49%</td>
</tr>
<tr>
<td>N</td>
<td>0-44%</td>
</tr>
</tbody>
</table>

The School awards marks leading to these grades by using the following general criteria which are presented here as an indication of the School’s expectations. These general criteria may be supplemented by specific standards provided with regard to a particular assignment.

**HD** The student has a clear understanding of theory, concepts and issues relating to the subject and is able to adopt a critical perspective. The student is able to clearly identify the most critical aspects of the task and is able to offer a logically consistent and well articulated analysis within the analytic framework presented in the course. The student is able to draw widely from the academic literature and elsewhere but maintains relevance.

**D** The student has a clear understanding of theory, concepts and issues relating to the subject. The student is able to develop an analysis of an issue using the analytic framework presented in the course and is able to identify and evaluate the critical issues. The student is able to draw upon relevant academic and other material.

**CR** The student demonstrates an understanding of the analytic framework developed in the course and a partial understanding of concepts and issues. The student is able to identify some key issues and is able to present a logical discussion, but with some conceptual errors or gaps between analysis and conclusions. The student is able to draw upon an adequate range of references and other materials.

**P** The student generally takes a descriptive rather than analytic approach to the subject. The student is able to demonstrate some understanding of the issues involved but does not demonstrate the ability to apply the analytical framework which had been developed in the course. Draws primarily upon course materials for referencing.

**N+** The student is unable to demonstrate that he or she understands the core elements of the subject matter. The student is able to provide some insight into issues but misapplies analytic framework developed in course, omitting key factors and, for example, drawing conclusions which are not related to the preceding discussion.

**N** The student is unable to demonstrate any understanding of the subject matter. Material presented for assessment is unrelated to course framework and shows no effort to identify or address critical aspects of the topic.

The scaling of marks to ensure comparability between classes in an acceptable academic practice. The GSM and Board of Examiners has the right to scale marks where it is considered necessary to maintain consistency and fairness.
Assessment 1

Description
Midterm Test

The Midterm test will cover material presented in the first half of the unit. The examination will be of one and a half hours duration and a formula sheet will be supplied.

Assessment 1

The assignment is a capital budgeting problem. It is to be done in groups of up to four students. The final report is not to exceed 10 typed pages although there is no limit on appendices. You will be given details of this assignment, including a marking guide, in the second half of the course.

You should retain items such as research notes, e-mails and a record of your individual input to the group assignment.

Final exam

The final examination is 3 hours plus 10 minutes reading time. A formula sheet is supplied. Examples of past examination papers are included in the material provided for you. Normally, the final examination covers mainly the material from the second half of the course. You will be advised of the details of this examination prior to sitting.

Submission of assignments

Assignments should be submitted in class on the due date or if handed into the office; a standard cover sheet should be used and a receipt issued.

Late assignments will attract a penalty of 5% per day. This penalty will be waived by the lecturer only in exceptional circumstances. No marks will be awarded to assignments submitted after other students in the class have had their assignments returned.

Assignments will be returned in class.

It is the intention that the marked assignments will be returned within two weeks of submission.

Appeals against assessment marks

In the first instance, students are strongly advised to talk informally to the lecturer about the grade awarded.

The University provides the opportunity for students to lodge an appeal against any mark which he or she feels is unfair. Any student making an appeal is under an obligation to establish a prima facie case by providing particular and substantial reasons for the appeal.

There is a 10 day time limit for making any such appeal. An appeal against academic assessment may result, as appropriate, in an increase or decrease in the mark originally awarded. The University regulations relating to appeals and the form on which the appeal should be lodged can be found in the GSM website.
Acknowledgements and plagiarism

In the course of your individual and group work assignments, you will encounter ideas from many sources. These will include journal and newspaper articles, commentaries, books, web sites and other electronic sources, original case sources, lecture materials. All MBA assignments that you submit must acknowledge all the different sources you have used. Not to acknowledge your sources is plagiarism, a form of dishonesty. Plagiarism is the misappropriation of the work or ideas of others and presenting them as your own. This is reprehensible from both an ethical and legal viewpoint. Neither the School nor the University accepts ignorance or the fact that a student's previous acts of plagiarism had been undetected as a defence.

In order to avoid engaging in plagiarism it is your responsibility to acknowledge all of your sources in any work submitted for assessment and it is essential that you reference the work of others correctly. Where you quote directly from a source, you must ensure that any direct quotations are placed in quotation marks and are fully referenced. Even when you do not quote directly and are just referring to or expanding on the work of others, you must still acknowledge the sources of your information and ideas. Close paraphrasing in which you change a few phrases around, leave a clause out of a long sentence or put the original sentences in a different order is still plagiarism. To mark words as a quotation the entire text that has been copied should be enclosed within quotation marks. If the copied text is four or more lines in length, it may be more appropriate to set it as a separate and indented paragraph. Each time that text is copied, the source must be acknowledged with a reference citation, including the page number.

Advice on proper referencing is given below. If you have any doubts concerning appropriate referencing formats or how to acknowledge the work of others correctly, you should seek the advise of your lecturer.

Students should note that cases of plagiarism are automatically reported to the Academic Conduct Officer and documentary evidence along with associated correspondence is placed on the student’s permanent record. For further information on the rules and procedures in respect of appropriate academic conduct you should visit:
http://www.teachingandlearning.uwa.edu.au/tl/academic_conduct

Taping of Lectures

The Graduate School does not provide tape recordings of lectures, however if you do wish to tape record a lecture then as a matter of courtesy, you should obtain the permission of the lecturer first.

Referencing

It is important that the referencing of any sources used in your written work is done properly, if only to substantiate the points you are making in your assignment or project. The Harvard style is the preferred and there are some notes for guidance which have been prepared by the library staff: ‘Citing your sources Harvard Style’

Endnote is a really good system for building up a database of references. Not everyone will want to invest the time in using this system but you should consider it if you intend to build up resource materials or plan to undertake extensive research in a particular area. The library staff have also developed a tutoring package: ‘A quick Guide to Using EndNote’ which provides the basics for using EndNote with an essay

This is linked to from the how to Use EndNote page
www.library.uwa.edu.au/guides/endnote/ which provides more comprehensive information.
Additional resources and reading material

Reference List

Brailsford, T., and Faff, R., "A Derivation of the CAPM for Pedagogical Use", Accounting and Finance, May 1993, pp. 53-60.


Journals
Accounting and Finance
Financial Management/Executive
Journal of Accounting and Economics
Journal of Accounting Research
Journal of Finance
Journal of Financial Economics
Journal of Financial and Quantitative Analysis