Unit Outline*

FINA8432

Introduction to Finance

Semester 2, 2011
Crawley

Dr Yihui Lan

Business School
www.business.uwa.edu.au

* This Unit Outline should be read in conjunction with the Business School Unit Outline Supplement available on the Current Students web site http://www.business.uwa.edu.au/students
UNIT DESCRIPTION

Introduction
Welcome to Introduction to Finance. Managers from all areas of a business are required to make decisions that impact on the business’s value. As a first principles course at graduate level the unit aims to provide you with a basic understanding of finance theory and the ability to apply that theory when making these financial decisions in an uncertain environment. You will be introduced to a range of tools used in financial analysis. You should understand the reasoning behind these tools and be able to apply them to a diverse range of financial problems. In addition, the disciplines of accounting and statistics are used to formulate and solve the problems faced by managers. The analytical tools examined in this unit will assist you in both your professional and personal life.

Unit content
This unit introduces the basic concepts in financial management. The emphasis is on providing an appreciation of introductory finance theory and understanding the fundamental tools of financial decision-making. Topics include: financial mathematics; investment evaluation techniques; capital budgeting; the valuation of both debt and equity securities; risk and return relationships; and diversification and portfolio theory.

The Goal of the unit
The broad goals of the unit are:

- to develop an appreciation of the nature of financial decisions;
- to develop familiarity with the analytical techniques useful in making those decisions, especially with respect to the investment decision;
- to appreciate alternative approaches to the valuation of securities and the impact of risk on expected return;
- to be familiar with the role played by financial markets in the pricing of securities and the implications of the efficient market hypothesis (EMH); and
- to excite your interest in the study of finance.

These skills will allow you to identify and evaluate the financial implications of any decisions involving investment of the business’s resources with the expectation of future pay-offs. As such, the skills developed in this unit can be applied to decision making in all functional areas of a business.

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

1. Understand the objectives of financial management.
2. Understand the Time Value of Money concept (Financial Mathematics) and apply it to solve financial problems.
3. Be able to evaluate capital investment proposals and understand the implications and limitations of the main evaluation methods.
4. Be able to value both debt and equity securities.
5. Understand the concepts of risk, risk aversion and diversification.
6. Explain the relation between returns and risk proposed by the asset pricing models.

Assessment takes the form of: continuous testing using MyFinanceLab, Readiness Assurance Tests (RATs), a team-based case study and a final exam. The topics are interrelated and build on each other. The continuous on-line tests and RATs ensure students build the required knowledge throughout the duration of the unit.
Educational Principles and Graduate Attributes

In this unit, you will be encouraged and facilitated to develop the ability and desire to:

- Critically evaluate and solve financial problems;
- Develop more effective communication skills through seminar and small group discussions;
- Develop competencies to work more effectively in teams through the completion of a group case analysis project; and
- Demonstrate self-management and independent learning skills through the completion of the prescribed on-line tests.

Prerequisites

Student must have passed ACCT8432 Introductory Financial Accounting or MGMT8502 Accounting prior to taking FINA8432 Introduction to Finance. In addition, it is assumed that students have an operational efficiency in Excel or another spreadsheet program and have a reasonable proficiency in mathematics and statistics.

TEACHING AND LEARNING RESPONSIBILITIES

Teaching and learning strategies

Learning in this unit is achieved by a combination of teaching and learning strategies, including lectures, problems and discussion questions, online quizzes and a team-based case study. Teaching staff strives to provide a conducive teaching and learning environment. It is strongly advised that you actively seek help from teaching staff and fellow students should problems arise.

The lectures cover the relevant theory and discuss the practical application of the theory. It is strongly recommended that students fully prepare for each week's lecture by downloading lecture notes, reading relevant chapters, and obtaining relevant background information before attending lectures.

This course makes extensive use of MyFinanceLab (MFL), which is as much a part of the learning experience as lectures and seminars. This product has the potential to fundamentally change how students study finance. Traditionally students learn by working end-of-chapter problems, yet the time lag between when the problem is worked and when feedback is received marginalises the benefit of the feedback. MFL completely removes this inefficiency by providing immediate feedback at the point in time you should be most receptive to the knowledge.

Problems and discussion questions are integrated into the seminars. These are designed to enhance your understanding of the theory and your ability to apply it to problem solving in finance. The questions and problems used in class (and others) will be added to the ‘Homework’ feature on MyFinanceLab. You will then be able to check/review the answers to the problems. There is a catch however! MyFinanceLab will alter the numbers in each question each time you review it.

The case study provides an opportunity to develop skills to work more effectively in small groups through the completion of a group case analysis project. It applies and further develops knowledge and skills learnt in the unit in a more realistic context than what is typically provided via the above problems. It is also designed to develop and assess generic skills; in particular data analysis, problem solving and communication skills.
Teaching and learning evaluation

You may be asked to complete two evaluations during this unit. The Student Perception of Teaching (SPOT) and the Students’ Unit Reflective Feedback (SURF). The SPOT is optional and is an evaluation of the lecturer and the unit. The SURF is completed online and is a university wide survey and deals only with the unit. You will receive an email from the SURF office inviting you to complete the SURF when it is activated. We encourage you to complete the forms as your feedback is extremely important and can be used to make changes to the unit or lecturing style when appropriate.

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, therefore it is important that you attend classes. More formally, the University regulations state that ‘to complete a course or unit students shall attend prescribed classes, lectures, seminars and tutorials’. Where a student, due to exceptional circumstances, is unable to attend a scheduled class, they are required to obtain prior approval of the unit coordinator to be absent from that class. Any student absent from class without having had such absence approved by the unit coordinator may be referred to the faculty for advice and may be required to withdraw from the unit.

CONTACT DETAILS

We strongly advise students to regularly access their student email accounts. Important information regarding the unit is often communicated by email and will not be automatically forwarded to private email addresses.

<table>
<thead>
<tr>
<th>Unit coordinator/lecturer</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name:</strong></td>
<td>Dr Yihui Lan</td>
</tr>
<tr>
<td><strong>Email:</strong></td>
<td><a href="mailto:yihui.lan@uwa.edu.au">yihui.lan@uwa.edu.au</a></td>
</tr>
<tr>
<td><strong>Phone:</strong></td>
<td>6488 2464</td>
</tr>
</tbody>
</table>
| **Consultation hours:** | (1) After lectures and/or seminars.  
(2) 2pm-3pm Tuesdays (Venue TBA).  
(3) Other consul times are strictly by appointment. |
| **Lecture times:** | 2pm-5pm Wednesdays |
| **Lecture venue:** | Sports Science Exercise and Health 102 |
TEXTBOOK(S) & RESOURCES

Unit Website

Unit support materials are available in WebCT: http://webct.uwa.edu.au. To login to WebCT, you need to supply a valid Person ID and password. Your Person ID is your student number (8 digits) and your password is your PHEME password.

If you are having trouble using WebCT please read the list of Frequently Asked Questions (FAQs), accessible at http://www.catl.uwa.edu.au/student, which describes common login errors and who to contact for further help.

In addition to the web pages, unit email lists are used to send information to students enrolled in a particular unit. Students enrolling late and students who change their enrolment will not be on the list. To update your details, please see the following web page:
http://www.business.uwa.edu.au/students/it-help/quotas/update

Recommended/required text(s)


There should be second hand copies available as this edition has been used for Semester 1, 2011.

Lecture Notes and Readings

Lecture notes and readings are available on WebCT by 5pm Tuesdays prior to the lectures on Wednesdays. Students are expected to download and print out copies for the assigned chapter and bring them to lectures.

MyFinanceLab (MFL)

Completion of work on MyFinanceLab is an essential component of FINA8432 and forms part of the assessment (see later) so it is essential to be correctly registered and to have access. Seek help from BITS (help-desk x7888) or one of the academic or professional staff if having problems.

Information on how to correctly enrol in MyFinanceLab will be available on WebCT. Go to www.myfinancelab.com and read the product information. Take the Product Tour. A demonstration of how to start using MyFinanceLab will be made in the first two lectures.

Financial Calculator

The UWA Business School has decided to adopt the list of approved calculators employed by the Faculty of Engineering, Computing and mathematics, details of which can be found at: http://www.ecm.uwa.edu.au/students/exams/calculators.

Most continuing students will already have an approved calculator that has an appropriate label affixed. If your calculator does not already have the requisite label, you must take your calculator (one from the approved list) to the reception at the UWA Business School Postgraduate Student Centre. Once the calculator is verified as being one from the approved list, a label indicating this will be affixed to the calculator and you are then allowed to use the calculator in exams for any Business School unit.

Please note that ONLY approved calculators with an affixed label are allowed to be used in official examinations. If your calculator does not have the appropriate label affixed you will NOT be allowed to use the calculator.
**Recommended Financial Calculator - Texas Instruments, BA II Plus.**

It is not necessary to have a ‘Finance’ calculator to study Finance at UWA. In the RATS and exam a formulae sheet will be provided and the type of questions that would favour a particular type of calculator will not be asked. However, proficiency with a financial calculator could save time and effort on MyFinanceLab (in the same way that a spreadsheet program like Excel will prove useful – more later).

The TI BA II Plus is approved for use in Chartered Financial Analysts (CFA) courses and exams where it would definitely prove useful. If you are interested in finance and do not have a calculator then this one would be pretty good. However, if you already have a decent scientific/maths calculator, it would be of marginal benefit. Please note that any brand of financial calculator that is also approved by the university will provide you with similar computational efficiencies.

**Additional Text(s)**

The following texts are useful alternatives to the main text. Most have been used as the main text in this course in previous years. You may wish to consult some of these texts for an alternative coverage of the material. Copies are held in the Closed Reserve Collection of the Reid Business Library. Other materials are available through your MyFinanceLab homepage.

- **Corporate finance**, Bishop, Faff, Oliver and Twite, Pearson Education.
- **Principles of corporate finance**, Brealey, Myers and Allen, McGraw-Hill.
- **Principles of managerial finance**, Gitman, Juchau, and Flanagan, Pearson Education.

N.B. Most of these texts have accompanying Study Guides and on-line student resources (including quizzes). The most recent edition is best but earlier editions are perfectly adequate.

**Software Requirements**

A word processor and spreadsheet such as Microsoft word and excel plus access to the internet. You will also need a calculator, as specified previously.
Useful Internet Sites

Information on the capital markets and individual companies:

- ASX: www.asx.com.au
- Australian Financial Review: www.afr.com
- Finsia – Financial Services Institute of Australia: www.finsia.edu.au
- Reserve Bank of Australia: www.rba.gov.au
- Sydney Futures Exchange: www.sfe.com.au
- Wall Street Journal: www.wsj.com/
- Yahoo finance: finance.yahoo.com/
- Yahoo finance Australian site: au.finance.yahoo.com

Press

Students are expected to keep abreast of current developments in the capital markets by regularly reading the major financial and business newspapers and journals.

Journals

- Accounting and Finance
- Financial Management/Executive
- JASSA, Journal of Finsia
- Journal of Accounting and Economics
- Journal of Accounting Research
- Journal of Corporate Finance
- Journal of Finance
- Journal of Financial Economics
- Journal of Financial and Quantitative Analysis

Databases

Databases containing extensive information regarding Australian companies:
- Factiva
- FinAnalysis
# UNIT SCHEDULE

## Seminar Topics


<table>
<thead>
<tr>
<th>Week #</th>
<th>Beginning</th>
<th>Topic</th>
<th>Seminar questions (under Homework in MFL)</th>
<th>Independent activity (e.g. readings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>01/08/11</td>
<td>Introduction to ITF &amp; Corporate Finance</td>
<td></td>
<td>Ch 1</td>
</tr>
<tr>
<td>2</td>
<td>08/08/11</td>
<td>Financial Statement Analysis</td>
<td>Ch1: 6, 7, 8, 12, 15</td>
<td>Ch 2</td>
</tr>
<tr>
<td>3</td>
<td>15/08/11</td>
<td>Financial Decision Making</td>
<td>Ch2: 8, 10, 13, 15, 16, 24</td>
<td>Ch 3</td>
</tr>
<tr>
<td>4</td>
<td>22/08/11</td>
<td>Time Value of Money</td>
<td>Ch3: 4, 10, 12, 17, A1, A6</td>
<td>Ch 4</td>
</tr>
<tr>
<td>5</td>
<td>29/08/11</td>
<td>Interest Rates</td>
<td>Ch4: 3, 8, 16, 17, 20, 26, 29, 40</td>
<td>Ch 5</td>
</tr>
<tr>
<td>6</td>
<td>05/09/11</td>
<td>Investment Decision Rules</td>
<td>Ch5: 2, 4, 11, 14, 24, 26, 35</td>
<td>Ch 6</td>
</tr>
<tr>
<td>7</td>
<td>12/09/11</td>
<td>Capital Budgeting</td>
<td>Ch6: 2, 6, 17, 19, 21, 23, 31</td>
<td>Ch 7</td>
</tr>
<tr>
<td>8</td>
<td>19/09/11</td>
<td>RAT #1 – no lecture/seminar</td>
<td></td>
<td>Chs 1 to 6</td>
</tr>
<tr>
<td></td>
<td>26/09/11</td>
<td>Non-Teaching Study Break</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>03/10/11</td>
<td>Valuing Debt Instruments</td>
<td>Ch7: 2, 4, 6, 10, 12, 13</td>
<td>Ch 8</td>
</tr>
<tr>
<td>10</td>
<td>10/10/11</td>
<td>Valuing Equity Instruments</td>
<td>Ch8: 1, 7, 10, 11, 21, 22, 31</td>
<td>Ch 9</td>
</tr>
<tr>
<td>11</td>
<td>17/10/11</td>
<td>Risk, Return &amp; the EMH</td>
<td>Ch9: 2, 6, 10, 24, 26, 27, 29</td>
<td>Ch 10</td>
</tr>
<tr>
<td>12</td>
<td>24/10/11</td>
<td>Portfolio Theory</td>
<td>Ch10: 1, 10, 12, 20, 24, 27, 32</td>
<td>Ch 11</td>
</tr>
<tr>
<td>13</td>
<td>31/10/11</td>
<td>RAT # 2 and Revision</td>
<td>Ch11: 1, 6, 15, 30, 35, 46</td>
<td>Chs 7 to 11</td>
</tr>
</tbody>
</table>
ASSESSMENT MECHANISM

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 provides you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.

Assessment mechanism summary

<table>
<thead>
<tr>
<th>Assessment Component</th>
<th>Weight</th>
<th>Due Date(s)</th>
<th>Submission</th>
</tr>
</thead>
<tbody>
<tr>
<td>MyFinanceLab</td>
<td>15</td>
<td>2pm weeks 3-7, 9-13</td>
<td>Via MyFinanceLab</td>
</tr>
<tr>
<td>Two RATs</td>
<td>30</td>
<td>Week 8 and week 13</td>
<td>Via MyFinanceLab</td>
</tr>
<tr>
<td>Group Case Study</td>
<td>5</td>
<td>2pm Wed 19 Oct week 11</td>
<td>Uniprint</td>
</tr>
<tr>
<td>Final exam</td>
<td>50</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td></td>
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</tr>
</tbody>
</table>

Note 1: Results may be subject to scaling and standardisation under faculty policy and are not necessarily the sum of the component parts.

Note 2: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning outcomes as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the unit.

Assessment components

Assessment item # 1 - MyFinanceLab (15% of final mark)

In FINA8432 we will cover Chapters 1 to 11 from BERK. For each chapter of chapters 2 to 11, in MyFinanceLab, a set of seminar questions has been assigned and named: Seminar Chapter 2; Seminar Chapter 3; etc, which is also included on page 9 of this unit outline. You can find these seminar questions under “Homework” in MyFinanceLab. Starting from week 3, you are expected to finish each set of questions for the previous week’s topic prior to the current week’s lecture/seminar. Please note that you can look at either the hint or the solution available for a question. However, points will be deducted if you choose to do so. Your performance on these 10 sets of seminar questions, due at 2pm each week from week 3 (except week 8), will contribute 5% towards your final mark (i.e., 5 out of 15 your MyFinanceLab grade mentioned above).

You may attempt each set of questions as many times as you want to achieve your desired score before the due date. Only your highest score will count towards your final assessment. It is not quite as easy as it sounds however since the questions and numbers, although similar, will be different each time! You can check your progress via “results” on your MyFinanceLab homepage.

In addition, there is also a test for each of chapters 2 to 11, which can be found under Quizzes and Tests in MyFinanceLab, named Test Chapter 2; Test Chapter 3; etc. All tests will remain open for the entire semester and will close off on Friday 4 November at 5.00 pm. These 10 tests will account for 10% of your final mark (i.e., 10 out of 15 of your MyFinanceLab grade mentioned above).

Student navigation buttons in MyFinanceLab
Like seminar questions, you can take the “same” test repetitively to achieve better performance and/or to revise for exams, but there will be neither hints nor solutions available. When, and how often, you take these tests is up to you. Your thorough review of the topic and preparation via seminar questions will help you excel in the tests.

MyFinanceLab has many powerful features to assist you in your study of Finance. Exactly how and when you use these features is up to you. However, it would be far from optimal not to do the work on a regular basis bearing in mind other assessment requirements. One possible approach is described on the final page of the unit outline. DO NOT LEAVE THE PRACTICES UNTIL THE LAST FEW DAYS especially if you are using Business School computers where access might be limited. You can appreciate from this how important it is for you to follow the correct registration procedures to enable the unit administrator to correctly record your marks against your student number.

**Assessment item # 2 – Readiness Assurance Tests (30% of final mark)**

There will be two RATs over the semester, which can be found under Quizzes and Tests in MyFinanceLab during week 8 and week 13 respectively. Further sample tests will be available for the preparation of RATs. You will complete each RAT individually. Each RAT will consist of multiple choice questions and will be worth 15% of the final mark. There will be 45 minutes allowed for each RAT. There will be no alternative times set to sit missed RATs.

**Assessment item # 3 – Team-Based Case Study (5% of final mark)**

Details of the case study and the method of submission will be made available in lectures and on WebCT. You will form groups of 4 or 5 persons in Week 7. The due date is **2pm Wednesday 19 Oct 2011** in week 11.

**Assessment item # 4 - Final Exam (50% of final mark)**

The final exam is 2 hours plus 10 minutes reading time. Details of the final examination will be distributed in lectures towards the end of the semester. The exam will include multiple choice questions, calculation and discussion type questions. It will be a closed book exam. Formulae will be provided, but you must bring your own university approved calculator. Copies of previous exams are neither available nor necessarily relevant. Your MyFinanceLab material is of direct relevance.
Student Guild

Phone: (+61 8) 6488 2295
Facsimile: (+61 8) 6488 1041
E-mail: enquiries@guild.uwa.edu.au
Website: http://www.guild.uwa.edu.au

Charter of Student Rights and Responsibilities


Appeals against academic assessment

The University provides the opportunity for students to lodge an appeal against assessment results and/or progress status (refer http://www.secretariat.uwa.edu.au/home/policies/appeals).

A Possible Study Plan

(1) Read the relevant chapter in BERK.
(2) Attend the lecture/seminar.
(3) Review materials and attempt relevant seminar questions and test questions.
(4) Do not be overly concerned at a poor test score (congratulate yourself on a good one). Review the questions and identify areas of concern – review materials.
(5) Your performance feeds back into your ‘Study Plan’. Areas of weakness are identified. Practice the topics you need to study (designated in the Study Plan by the red arrow➡).
(6) Review ‘Homework’ in MyFinanceLab in any problem areas – if problems persist check one of the other reference texts or the Study Guide or see the teaching staff member and resolve them.
(7) If you have not done the assigned test(s) do so now. It may be necessary to do or redo at least one of the Sample Tests to help prepare thoroughly.
(8) Back to step 1 for the next topic.
(9) Practise more via seminar questions, test questions and sample tests if necessary.
(10) You are ready for the RAT.
(11) This subject builds on itself – don’t get behind.