

Course Outline 2018
FINANCE 251: FINANCIAL MANAGEMENT (15 POINTS)
Summer School (1180)

Course Prescription

This is an introductory course in finance that focuses on the practical aspects of corporate finance. Topics covered include the mathematics of finance, security valuation, investment and financing decisions, risk and return tradeoff, and the fundamentals of international financial management. The goal is to equip students with the basic skills that will be supplemented and extended in FINANCE 261 and the year three finance papers.

Programme and Course Advice

It is assumed that you will be familiar with the core notions in accounting and finance, as well as those of economics and management, at the level of a first year university course. If you lack confidence in your ability to deal with some of the basic concepts, we strongly suggest that you review your lecture notes.

Many of the concepts you encounter will likely be completely new to you. We will guide you through the learning process in lectures. Gaining a deeper understanding will require a great deal of effort from you, we do not expect you to understand immediately and fully the concepts we discuss in lectures. We can only hope that you will think about these further after the lectures, read the textbook and complete the revision problems we have assigned. Although this paper schedules only three formal hours of lectures per week students are expected to devote at least six additional hours each week in reading and revision and attend any tutorials that may be offered. Please make use of the Help Desk prior to contacting the course lecturers for any clarification of the course material.

Students are expected to have a reasonable degree of competence in basic algebra, Microsoft Excel and Word.

Prerequisite: ACCTG 102 or 192

Recommended: ECON 101, ECON 111, ECON191and MGMT101

Goals of the Course

The main aim of this course is to introduce a set of concepts that are necessary for more advanced finance papers (FIN261, FIN351, FIN361, and FIN362).

This course builds on your year-one accounting and finance knowledge and introduces:

- Introduction to managerial finance.
- Financial tools.
- The risk and return relationship.
- The valuation of securities.
- Long-term investment decisions.
- Short-term financial decisions.
- Long-term financial decisions.
- International finance and risk management

Learning Outcomes

By the end of this course it is expected that the student will be able to:

1. Introduction to managerial finance
 - Identify the objective of the firm and the role of managerial finance.
 - Outline the implications of the separation of ownership and control.
2. Financial tools
 - Evaluate financial statements using ratio analysis.
 - Demonstrate the importance of cash-flows to financial planning.
 - Apply a variety of time-value-of-money formulae and techniques.
3. The relationship between risk and return.
 - Discuss the risk-return tradeoff.
 - Describe the difference between market risk and unique risk.
 - Demonstrate how risk is measured through Capital Asset Pricing Model (CAPM).
 - Discuss the concept of opportunity cost of capital.
 - Explain the concept of weighted average cost of capital (WACC).
4. The valuation of securities
 - Explain the general concept of valuing financial assets.
 - Explain the characteristics of debt and equity securities.
 - Calculate the value of debt and equity securities.
 - Identify the expected return on debt and equity securities.
5. Long-term investment decisions
 - Identify capital budgeting cash-flows
 - Apply a variety of capital budgeting techniques
 - Appraise risk and refinements in capital budgeting
6. Short-term financial decisions
 - Identify why firms need to invest in net working capital.
 - Explain the costs and benefits of different working capital management financing strategies.
7. Long-term financial decisions
 - Outline the alternative sources of long-terms funds
 - Contrast operating leverage and financial leverage.
 - Describe the factors that influence a firm's optimal capital structure
 - Contrast the factors that influence a firm's payout policy
8. International finance and risk management
 - Discuss the origin and use of basic derivative instruments.
 - Explain simple hedging strategies using forwards, futures, options and swaps.
 - Explain the importance of international managerial finance

Content Outline

Module	Topic	Lecture hours (approx.)	Textbook chapters (2 nd edition)
1	Introduction	2	1, 2, 3
2	Financial tools	5	4, 5, 6
3	Risk, return and the cost of capital	4	7, 13
4	Valuation of securities	4	8, 9
5	Long-term investment decisions	4	10, 11, 12
6	Short-term financial decisions	4	14
7	Long-term financial decisions	4	15, 16, 17
8	Risk management & international	3	20, 21

Learning and Teaching

LECTURES

Venue	Day	Time
LibB15/109-B15	Tuesday	9am – 11am
LibB15/109-B15	Wednesday	9am – 11am
LibB15/109-B15	Thursday	9am – 11am

Please check at [Quicklinks/Student Services Online](#) to confirm the above information.

TUTORIALS

Venue	Day	Time
LibB15/109-B15	Friday	9am – 11am

Teaching Staff

Name	Location	Office hours	Email
Graeme Treasure Tutorials - TBA	OGGB 579	By arrangement	g.treasure@auckland.ac.nz

Learning Resources

The recommended textbook is:

Parrino, Kidwell, Au Yong, Dempsey, Morkel-Kingsbury, Ekanayake, Kofoed & Murray (2014) *Fundamentals of Corporate Finance* (2nd Ed.). Wiley:Australia

It is highly recommended that you purchase this e-text (also available in print form) as it will be referred to and used extensively throughout the course. Lecture notes and further readings will also be posted on Canvas. Please download them yourself.

In the lecture notes, you will find recommended problems from the 2nd edition of your textbook. They are designed to test and reinforce your understanding of the materials covered in the lectures. You are strongly encouraged to try to solve the problems before checking solutions, which will be posted on Canvas.

The following books provide a useful background to report writing, a skill that is necessary for gaining a high grade in this course:

Manalo, E., Wong-Toi, G., and Hansen, M. (1997) *The Business of Writing: Written Communication Skills for Commerce Students*, Longman;

Emerson, E. (2005) *Writing Guidelines for Business Students*, Thomson Dunmore Press.

Assessment

Individual Mid-term Test (1.5 hours)	25%
Individual or Group Participation	10%
Final Exam (2 hours)	65%
Total	<hr/> 100%

Further details on these assessments will be provided on Canvas and at our first lecture.

The broad relationship between these assessments and the course learning outcomes is as follows:

Learning Outcome	Mid-term Test	Participation	Final Exam
1	X		X
2	X	X	X
3	X	X	X
4		X	X
5		X	X
6		X	X
7		X	X
8		X	X

Inclusive Learning

Students are urged to discuss privately any impairment-related requirements face-to-face and/or in written form with the course convenor/lecturer and/or tutor.

Student Feedback

Student course evaluations are requested at the end of each semester.

Changes that have been included for 2018 in response to feedback provided in 2016 and 2017 include:

- Replacement of the course textbook with an e-text (which is also available in hard-copy) providing access to a range of additional resources and test questions that will be invaluable for the course. The e-text provides students with a permanent licence to the text (not just for one semester) at a cost of around 40% of hard-copy texts.
- The provision of an increased number of old exam and exam-type questions, plus answers/feedback, to assist students practice the application of concepts developed during lectures.