Final o 5-3-2014

ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Business Administration)

CORPORATE FINANCE (8524)

CHECKLIST

SEMESTER: SPRING 2014

This packet comprises the following material:

1. Text Book (one)
2. Course Outlines
3. Assignment No. 1, 2
4. Assignment Forms (2 sets)

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

The Mailing Officer
Mailing Section, Services Block No. 28
Allama Iqbal Open University
H-8, Islamabad.
Phone Nos. 051-9057611-12

Ms. Nadia Rashid
(Course Coordinator)

ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Business Administration)

WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENT(S) BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

ASSIGNMENT No. 1
(Units: 1–4)

Course: Corporate Finance (8524) **Semester: Spring 2014**
Level: MBA (3½ Years / 2½ Years) / M.Com **Total Marks: 100**
Pass Marks: 50

Q. 1 Zeeshan wants to save money to meet three objectives. First, he would like to be able to retire 30 years from now with retirement income of Rs.20,000 per month for 20 years, with the first payment received 30 years and one month from now. Second, he would like to purchase a plot in Vihari in 10 years at an estimated cost of Rs.325,000. Third, after he passes on at the end of the 20 years of withdrawals, he would like to leave an inheritance of Rs.750,000 to his nephew Sarim. He can afford to save Rs.2,000 per month for the next 10 years. If he can earh an 11 percent EAR before he retires and an 8 percent EAR after he retires, how much will he have to save each month in years 11 through 30? **(20)**

Q. 2 Anees Industrial Systems Company (AISC) is trying to decide between two different conveyor belt systems. System A costs 430,000, has a four-year life, and requires Rs.120,000 in pretax annual operating costs. System B costs Rs.540,000, has a six year life, and requires Rs.80,000 in pretax annual operating costs. Both systems are to be depreciated straight line to zero over their lives and will have zero salvage value. Whichever project is chosen, it will not be replaced when it wears out. If the tax rate is 34 percent and the discount rate is 20 percent, which project should the firm choose? **(20)**

Q. 3 Ansar has Rs.100,000 to invest in a portfolio containing Stock X, Stock Y, and a risk free asset. He must invest all of his money. His goal is to create a portfolio that has an expected return 13percent and that has only 70 percent of the risk of the overall market. If Stock X has an expected return of 31 percent and a beta of 1.8, Stock Y has an expected return of 20 percent and a beta of 1.3, and the risk free rate is 7 percent, how much money will he invest in Stock X? Also give interpretation to the answer. **(20)**

Q. 4 Discuss in detail the techniques a financial manager can identify as a principal threats to a project's success. Briefly describe how you would use each technique being a financial manager of a corporation? **(20)**

Q. 5 Describe in detail what market inefficiency can mean for the financial manager of a corporation. Also write down the strategies that can be used by the financial manager when markets are not efficient. **(20)**

GUIDELINES FOR ASSIGNMENT No. 1

You should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

The references should be given at the end of the assignment. For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

ASSIGNMENT No. 2

Total Marks: 100 **Pass Marks: 50**

This assignment is a research-oriented activity. You are required to obtain information from a business/commercial organization and prepare a report of about 1000 words on the issue allotted to you to be submitted to your teacher for evaluation.

You are required to select one of the following issues according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit):-

Issues/Topics:

0. Making Investment Decision with Net Present Value Rules
1. Measurement of Portfolio Risk for a Project
2. Decision Trees and Subsequent Decisions
3. Means and Modes of Corporate Financing
4. Financial Distress and its Cost
5. Financial Analysis of a Company
6. Merger, it's Cost and Gains
7. Financial Planning Process in a Corporation
8. Financial Lease and its Valuation
9. Process of Financing Foreign Operations of an International Corporation

GUIDELINES FOR THE PREPARATION OF ASSIGNMENT # 2

The Report Should Follow the Following Format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Data collection methods
7. Practical Study related to the topic assigned
8. Conclusion (one page brief covering important aspects of your report)
9. Recommendations (specific recommendations relevant to issue assigned)
10. References (as per APA format)
11. Annexes (if any)

Other Guidelines:

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech. Workshop presentation transparencies should only be in typed format.

You are required to prepare two copies of 2nd assignment. Submit one copy to your tutor/ teacher for evaluation and the second copy for presentations in the workshop in the presence of the resource person and classmates, which will be held at the end of the semester prior to the final examination.

GUIDELINES FOR WORKSHOP PRESENTATION:

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS:

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory	60%
Applicability (practical study of the organization)	40%

COURSE OUTLINE

Course: **Corporate Finance** Course Code: **8524**
Level: **MBA (3 ½ Years / 2 ½ Years) / M.Com** Credit Hours: **03**

Unit–1 Value

1.1. Role of Financial Manager
1.2. Present Value and Opportunity Cost of Capital
1.3. Present Value Calculations for Financial Instruments
1.4. Capital Budgeting Techniques
1.5. Making Investment Decision with Net Present Value Rules

Unit–2 Risk and Return

2.1. Risk Measurement and Diversification
  2.1.1 Measurement of Portfolio Risk
  2.1.2 Factors Affecting Individual Securities Portfolio Risk
  2.1.3 Diversification and Value Additivity
2.2. Risk and Return Relationship Theories
  2.2.1 Markowitz Portfolio Theory
  2.2.2 Validity and Role of Capital Asset Pricing Model
  2.2.3 Arbitrage Pricing Theory
2.3. Capital Budgeting and Risk
  2.3.1 Company and Project Cost of Capital
  2.3.2 Beta Measurement and Adjustments

Unit–3 Practical Tools for Capital Budgeting

3.1. Project Analysis Tools
  3.1.1 Sensitivity Analysis
  3.1.2 Monte Carlo Simulation
  3.1.3 Decision Trees and Subsequent Decisions
3.2. Capital Investment Decisions and Strategies

Unit–4 Financing Decisions and Market Efficiency

4.1. Efficient Market
  4.1.1 Efficient Market: Concept and Forms
  4.1.2 Lessons of Market Efficiency
4.2. Means and Modes of Corporate Financing

Unit–5 Dividend Policy and Capital Structure

5.1. Dividend Payments Decision and Stock Repurchases
5.2. Controversy about Dividend Policy
  5.1.1 Rightist
  5.1.2 Taxes and Radical Left

- 5.1.3 Middle-of-the-Roaders
- 5.3. Financial Leverage Impact upon Competitive Tax-Free Economy
- 5.4. Cost of Financial Distress
- 5.5. Pecking Theory of Financing Choices
- 5.6. Financing and Valuation
  - 5.4.1 After-Tax Weighted-Average Cost of Capital
  - 5.4.2 Business Valuation

Unit–6 Options

- 6.1. Corporate Liabilities and Valuation of Options
  - 6.1.1 Calls, Puts, and Shares
  - 6.1.2 Holding Calls, Puts, and Shares in Combination
  - 6.1.3 Determination of Option Values
- 6.2. Real Options
  - 6.2.1 Option to Expand
  - 6.2.2 Timing Option
  - 6.2.3 Option to Abandon
  - 6.2.4 Flexible Production Facilities
- 6.3. Warrant and Convertibles
  - 6.3.1 Concept of Warrant and Convertible Bonds
  - 6.3.2 Process of Issuing Warrants and Convertibles

Unit–7 Debt Financing

- 7.1. Types of Interest
- 7.2. Interest Rate Fluctuations and Bond Prices
  - 7.1.1 Duration and Volatility
  - 7.1.2 Managing Interest Rate Risk
- 7.1.3 Explaining Term Structure
- 7.1.4 Different Kinds of Debt
- 7.1.5 Valuation of Financial Leases

Unit–8 Financial Planning

- 8.1. Analysis of Financial Performance
  - 8.1.1 Financial Ratios
  - 8.1.2 Earning Record
  - 8.1.3 Application of Financial Analysis
- 8.2. Approaches to Financial Planning
  - 8.2.1 Concept of Financial Planning
  - 8.2.2 Requirements for Effective Planning
  - 8.2.3 Financing Planning Models
  - 8.2.4 External Financing and Growth
- 8.3. Short Term Financial Planning

Unit–9 Mergers and International Finance

- 9.1. Mergers
  - 9.1.1 Sensible Motives for Mergers

9.1.2 Reasons for Mergers
9.1.3 Estimating Costs and Gains of Mergers
9.1.4 Mechanics of a Merger
9.1.5 Merger Tactics
9.1.6 Leveraged Buy-Outs
9.1.7 Mergers and Economy

9.2. International Financial Management
9.2.1 Foreign Exchange Markets
9.2.2 Insuring Against Currency Risk
9.2.3 International Investment Decisions
9.2.4 Cost of Capital for Foreign Investments
9.2.5 Financing Foreign Operations
9.2.6 Political Risk
9.2.7 Hedging Financial Risk

Recommended Books:

Brealey et al. (2008). *Principles of Corporate Finance* (9th ed.). Illinois, U.S.A.: McGraw-Hill/Irwin

Ross et al.(2005). *Fundamentals of Corporate Finance* (7th ed.). Illinois, U.S.A.: McGraw-Hill/Irwin

Vishwanath S.R.(2007). *Corporate Finance: Theory and Practice* (2nd ed.). New Delhi, India: Sage Publication.

_____[]_____