

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

**CORPORATE FINANCE (8524)**

**CHECKLIST**

**SEMESTER: AUTUMN, 2013**

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:

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**(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: Autumn, 2013**

**Level: MBA (3 ½ years)/ MBA 2 ½ years/ M.Com**

**Total Marks: 100**

**Pass Marks: 50**

- Q. 1 Shawaal is considering two different savings plans. The first plan would have her deposit Rs.1000 every six months, and she would receive interest at a 8 percent annual rate, compounded semi-annually. Under the second plan, she would deposit Rs.1,500 every year with a rate of interest of 8.5 percent, compounded annually. The initial deposit with Plan 1 would be made six months from now and, with Plan 2, one year hence.
- a) What is the future Value of the first plan at the end of 8 years? **(08)**
  - b) What is the future value of the second plan at the end of 8 years? **(08)**
  - c) Which plan should Shawaal use, assuming that her only concern is with the value of her savings at the end of 8 years? **(04)**

- Q. 2 Rehman Corporation is considering two investment projects, each of which requires an up-front expenditure of Rs.10 millions. It estimates that the investments will produce the following net cash flows:

Year	Cash Flow (Project X) (Amount in Rs.)	Cash Flow (Project Y) (Amount in Rs.)
1	2,500,000	10,000,000
2	5,000,000	5,000,000
3	10,000,000	3,000,000

**Required:**

- a) Calculate the Payback Period for both projects. **(06)**
- b) What will be the two projects' net present values (NPV) at the discount rate of 8 percent? **(07)**
- c) What will be the two projects' net present values (NPV) at the discount rate of 10 percent? **(07)**

Q. 3 Consider the following information:

State of Economy	Probability of State of Economy	Rate of Return if state occurs		
		A	B	C
Recession	0.25	0.06	0.05	0.20
Normal	0.30	0.11	0.09	0.11
Boom	0.45	0.21	0.14	0.35

- a) What is the expected return on an equally weighted portfolio of these three stocks? **(12)**
- b) What is the variance of a portfolio invested 40 percent each in Stock A and Stock C, and 20 percent in Stock B. **(08)**

Q. 4 Write a detailed note on sensitivity analysis with the help of suitable examples. **(20)**

Q. 5 What do you mean by efficient capital market? Also discuss the basis on which a capital market can be considered as an efficient one. **(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. Strategies for Capital Investment by a financial Institution
1. Use of Decision Trees
2. Capital Budgeting Techniques
3. Modes of Financing for a Corporation
4. Role of Financial Manager
5. Application of Real Options for a Project
6. Debt Instruments and its features by a financial institution operating in Pakistan
7. Financial Planning by a corporation
8. International investment decisions by a corporation operating in Pakistan
9. Merger

### 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**  
 Level: **MBA (3 ½ Years)/ MBA (2 ½ Years)/ M.Com**

Course Code: **8524**  
 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* (9<sup>th</sup> ed.). Illinois, U.S.A.: McGraw-Hill/Irwin
- Ross et al.(2005). *Fundamentals of Corporate Finance* (7<sup>th</sup> ed.). Illinois, U.S.A.: McGraw-Hill/Irwin
- Vishwanath S.R.(2007). *Corporate Finance: Theory and Practice* (2<sup>nd</sup> ed.). New Delhi, India: Sage Publication.

