



**THE OPEN UNIVERSITY OF TANZANIA**  
***FACULTY OF BUSINESS MANAGEMENT***

**MASTER OF BUSINESS ADMINISTRATION (MBA)**  
**OBS 613: FINANCIAL MANAGEMENT**

**COMPENDIUM**

**COMPILED BY:**

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**Course Outline**

**1.0 INTRODUCTION**

Corporate financial decisions involve huge sums of money and the financial environment in which firms operate changes rapidly. Thus, financial management is important because the capital investment decisions taken today may determine the businesses that a firm will be in several, if not many, years ahead. Success or failure of that firm will also depend on its ability to find the capital it needs. Consequently, financial managers will definitely need more than just rules of thumb to run successful businesses. The financial management course is therefore designed to provide students with tools of analysis and decision-making as well as a coherent framework within which such tools of analysis are applied.

The course is organised twelve topics. In each topic, key learning objectives and Subtopics are outlined. In addition, a list of relevant readings is indicated. The list is not in anyway exhaustive. It is rather meant to guide the student through the search for knowledge in the subject consistent with the intended objectives. Course assessment is also explained. Finally, compendia containing some book chapters or journal articles relevant to specific topics are included. On average, students are required to spend at least three hours on each topic.

**1.1 Aim of the Course**

The aim of this course is to provide students with tools of analysis and decision-making as well as a coherent framework within which such tools of analysis are applied and decisions are taken.

**1.2 Key Learning Objectives**

Upon completing this course, you should be able to:

- Identify the goal of the firm, the role of financial managers and describe the financial environment in which businesses operate including the agency problem and its potential remedies.
- Understand the concept of time value of money and apply it to value corporate securities and other cash flows.
- Make basic business decisions regarding:
  - Which project to undertake and when
  - How to finance a project
  - How much payouts to make and in what form

- How much debt to carry in a firm's capital structure
- Analyse and evaluate the potential consequences of such decisions on the firm's expected rate of return, riskness, and share value.

## **2.0 COURSE DESCRIPTION**

The course examines topics in corporate finance and investments with a primary focus on corporate investment and financing decisions. That is, on how corporations make short and long-term decisions.

Topics covered include valuation: the nature and scope of finance; time value of money concepts and their application in the valuation of corporate securities; capital budgeting. Investment analysis: the concepts of risk measurement and its relationship with expected return, portfolio analysis, and capital market efficiency. Major financial management policy decisions: capital structure decisions, financing decisions, dividend policy, leasing, and working capital management. The managerial decision-making is evaluated within the context of the firm's goal of maximising shareholder's wealth.

Students pursuing a concentration in finance should view this course as a foundation for future studies and work in corporate finance, financial markets, or financial institutions. Students, who do not pursue a career in finance and/or finance-related, will gain an understanding of the responsibilities and concerns of corporate financial managers.

## **3.0 COURSE PRE-REQUISITES**

The course relies on quantitative techniques for model theory formulation and model building. The analysis will also draw from accounting numbers, i.e. the basic principles and translation of financial statements. Thus, it would be helpful if the student has an elementary knowledge of algebra, statistics, accounting and microeconomics, but this is not essential.

The assessment of this course will include a research-oriented term paper. Students will thus require some knowledge of research methods. A separate course in business research methods is being offered simultaneously with this course.

Lastly, but not the least, the student will need either a calculator or financial tables. Any calculator with a *memory function*,  $y^x$ ,  $1/x$ ,  $e^x$ , and  $\ln$  buttons will be sufficient. The basic financial tables are included in the compendia. A good mastery of these tools (speed and accuracy of their usage) will help the student a great deal.

## **4.0 COURSE CONTENT**

The course is divided in twelve topics under each of which the following materials will be covered.

### **4.1 The Nature and Scope of Finance**

The aim of this topic is to give you a broad perspective of financial management. The topic considers organisation of the firm, the financial decisions that firms must take, why such decisions are important, as well as the role, and responsibilities of financial

managers. The financial markets, the goal of the firm, the conflicts of interest that may arise between financial managers and the firm owners, including some of the mechanisms that may align them are also reviewed.

#### **4.1.1 Learning objectives**

Upon completing this topic, you should be able to:

- Describe business organisations
- Understand the major business functions and decisions that the firm managers are responsible for.
- Explain the role of financial markets and institutions in corporate development and investments
- Identify an appropriate goal of the firm, i.e. Why it makes sense for firms to maximise market values rather than profit
- Explain why conflict of interests may arise in large firms and discuss how corporations can provide incentives for everyone to work towards a common goal.

#### **4.1.2 Subtopics**

- The firm
- The finance manager and the firm
- Financial institutions, markets, and the firm
- The goal of the firm
- The agency problems and their remedies

#### **4.1.3 Readings**

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 1, p.3-9.

Brealey, R. A., Myers, S. C. and Marcus, A.J. (2001) *Fundamentals of Corporate Finance* (3<sup>rd</sup> edn), Boston, McGraw-Hill, Irwin, Chapter 1, p. 3-31.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 1, p. 2-19.

Van-Horne, J. (2002) *Financial Management and Policy*, (12th edn), Upper Saddle River, New Jersey, Prentice-Hall, Chapter 1, p. 2-19.

## **4.2 The Time Value of Money**

Companies invest in various assets (tangible and intangible; current and fixed), in the hope of receiving even more money later. They must however pay for the assets by raising money; thus, assuming responsibilities. All these financial decisions require comparisons of cash flows at different time dates. This topic will provide you with a framework for understanding the relationship between the value of a shilling today and that of a shilling in the future, and vice versa. Indeed, it will expose you to the basic financial tools for valuation, financing, and investment analysis. These tools will be used repeatedly through out the course, for instance in valuing bonds, shares and other assets.

### **4.2.1 Learning objectives**

Upon completing this topic, you should be able to:

- Discuss the role of time value of money in finance and the use of computational aids to simplify its application.
- Understand the concepts and computations of future and present values and the relationship between them
- Understand and demonstrate the effects of compounding frequency, cash flow patterns, inflation, and international setting on the present and future values.
- Understand their basic application e.g. in determining future sums, loan amortisation, and growth rates.

#### 4.2.2 Subtopics

- Compound interest, future, and present values
- Multiple cash flows (even and uneven cash flows)
- Inflation and time value of money

#### 4.2.3 Readings

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7<sup>th</sup> edn), Boston, McGraw-Hill, Irwin, Chapter 2, p.12-31 & Chapter 3 p. 33-57.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6<sup>th</sup> edn), New York, McGraw-Hill, Chapter 3 & 4 p. 46-101.

Van-Horne, J. (2002) *Financial Management and Policy*, (12<sup>th</sup> edn), Upper Saddle River, New Jersey, Prentice-Hall, Chapter 2, p. 11-21.

### 4.3 Time Value of Money and Valuation

The value of financial securities is determined by the concepts of risk and return just as it is that of physical assets. It is not easy though to predict the prices of securities such as bonds and shares. This topic shows how the valuation techniques developed topic 4.2 can be utilised in the valuation of these financial securities. Such tools should help you design investment and financing activities in a manner, which exploits the relevant variables to maximise the market values of bonds and shares.

#### 4.3.1 Learning Objectives

Upon completing this topic, you should be able to:

- Distinguish between the different kinds of bonds and explain the more popular features of bonds
- Estimate the value of bond, compute the bondholder's expected rate of return and explain the three important relationships that exist in bond valuation
- Describe the basic characteristics and features of shares, the principle determinants of share prices and be able to estimate share value using a variety of approaches
- Calculate a share's expected rate of return

#### 4.3.2 Subtopics

- Valuation of bonds
  - Fundamental features of bonds
  - Bond valuation

- Yields, interest rates and bond valuation
- Expected rate of return
- Effects of inflation
- Valuation of shares
  - Net Assets value, NAV.
  - Income flow methods (Dividends based models, DVM; Earnings based models, PER)
  - Cash flow based models
  - Expected rate of return
- Valuing entire businesses

### 4.3.3 Readings

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 4 p.59-89.

Brealey, R. A., Myers, S. C. and Marcus, A.J. (2001) *Fundamentals of Corporate Finance* (3<sup>rd</sup> edn), Boston, McGraw-Hill, Irwin, Chapter 4, p. 105-128.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 5, p.102-139.

## 4.4 Investment Analysis (Capital Budgeting)

The general reason that shareholders supply funds to a firm is to receive a return on their precious resources. It is vital for the health of the firm and the economic welfare of the finance providers that management employs the best techniques available when analysing investment opportunities from which to choose one that will give the best return. This sort of decisions requires managers to be informed about a range of issues. These issues include the level of demand for the proposed activities, internal environment, culture, firm capabilities, type, and level of costs, risk, and uncertainties pertaining to the project. On top of all these, financial managers will need to employ investment appraisal techniques, which take into account the fundamental considerations. Such techniques are covered in this topic.

### 4.4.1 Learning objectives

Upon completing this topic, you should be able to:

- Demonstrate an understanding of the fundamental theoretical justifications for using discounted cash flow techniques in analysing major project by being able to calculate NPVs and IRRs and appreciate the relationship between them. Also by being able to describe and explain the potential problems that can arise with the IRR usage in specific circumstances.
- Identify and apply relevant and incremental cash flows in NPV calculations
- Appreciate the complexities in investment appraisal arising from capital rationing, taxation, and inflation.
- Demonstrate an awareness of the extent of the usage of investment decision techniques in both developed and developing economies

### 4.4.2 Subtopics

- Discounted cash flow techniques (NPV and IRR)

- Traditional techniques (ROCE, Payback period, etc)
- Estimation of cash flows
- Project interaction (replacement, and timing decisions)
- Inflation taxes and investment analysis
- Capital rationing
- Evidence on the employment of appraisal techniques in developed and developing economies

#### 4.4.3 Readings

Arnold, G. (1998) *Corporate Financial Management*, Financial Times, Pitman Publications, London. Ch.4, p. 134-158.

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 5 & 6, p.91-150.

Kaijage, E.S. (1994) Capital Budgeting Techniques in Tanzania, *Business Management Review* 3(1), 1-11.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 6 & 7, p.140-199.

#### 4.5 Risk and Return Analysis

The aim of this topic is to describe the nature of the risk-return trade-off facing investors and firms and show how finance managers can use this trade-off to determine the required rate of return on an investment as well as portfolio strategies. The topic further develops the required rate of return concept utilised in the valuation and in capital budgeting topics, in which it was assumed known.

##### 4.5.1 Learning objectives

Upon completing this topic, you should be able to:

- Define and measure the riskiness and expected rate of return of both an individual investment and a portfolio of assets.
- Explain how diversification of investments affects the riskiness and expected return of a portfolio of assets
- Explain the relationship between an investor's required rate of return on an investment and the riskiness of the investment.

##### 4.5.2 Subtopics

- Defining and measuring risk (security and portfolio)
- Defining and measuring expected rate of return (security and portfolio)
- Diversification and portfolio risk
- Risk classification
- The Risk - return relationship (security market line) and the required rate of return
- Risk and the cost of capital

##### 4.5.3 Readings

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 7 & 8 p.153-219.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 9 & 10, p.219-284.

## **4.6 Cost of Capital and Capital Structure**

The aim of this topic is to develop an understanding of the cost of different sources of capital, the cost of capital that firms use to evaluate new projects, and the effects that the firm's capital structure has on this cost of capital and indeed on the value of the firm. In the process, the theoretical underpinnings of the firm's choice of the mix of financing sources will be underscored.

### **4.6.1 Learning Objectives**

Upon completing this topic, you should be able to:

- Describe the concept of the firm's cost of capital
- Calculate the firm's after tax cost of capital (individual sources of capital and weighted average)
- Determine which cost of capital a firm should use in valuing new projects
- Explain the main underpinnings of the capital structure theory
- Understand the main concepts of an optimal capital structure and the factors that are important in the choice of a firm's debt-to-equity ratio

### **4.6.2 Subtopics**

- Cost of capital
  - The cost of capital concepts
  - Individual and weighted average costs of capital
  - Costs of capital and valuation
- Capital structure
  - Capital structure decision (No taxes or other capital market imperfections)
  - Taxation and capital structure decision
  - Debt equity ratio, cost of capital and the value of the firm (The MM Propositions)
- Optimal capital structure
  - Costs of financial distress and bankruptcy
  - The static trade-off theory
  - The pecking order theory
  - Personal taxes
- Evidence on capital structure determinants

### **4.6.3 Readings**

Booth, L. V. Aivazian, A. Demirguc-Kunt and V. Maksimovic (2001) Capital structures in developing countries, *Journal of Finance* 56(1), 87-130.

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 17 & 18.

Miller, M. H. (1977) Debt and Taxes, *Journal of Finance*, 32: 261-276.

Modigliani, F. and Miller, M. H. (1958) The cost of capital, corporation finance and the theory of investment, *American Economic Review*, 48: 261-297.

Myers, S. C. (1977) Determinants of Corporate Borrowing, *Journal of Financial Economics* 5: 146-175.

Rajan R. and Zingales, L. (1995) What do we know about capital structure? Some evidence from international data, *Journal of Finance*, 5, 1421–1460.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 15 &16

#### 4.7 Corporate Financing and the Stock Market Efficiency

The aim of this topic is to develop an understanding of the Efficient Market Theory, its uses in interpreting asset returns, changes in prices, its tests, and implications for corporate finance and security analysis.

##### 4.7.1 Learning Objectives

Upon completing this topic, you should be able to:

- Discuss the meaning of the random walk hypothesis;
- Describe the various forms of market efficiency and their respective implications
- Provide a balanced judgement of the usefulness of past price movements to influence future share prices
- Provide an overview of the existing evidence for the market efficiency and the potential problem of generalising the conclusions (the joint hypothesis problem)
- Comment on the implications of the evidence for efficiency for investors, and for corporate management
- Explain the factors that may influence the level of market efficiency in developed and developing economies.

##### 4.7.2 Subtopics

- The random walk hypothesis
- Forms of market efficiency
- Evidence on market efficiency and its implications
- Market efficiency and developed and developing economies

##### 4.7.3 Readings

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 13.

Fama, E.F. (1970) Efficient Capital markets: A review of Theory and empirical work, *Journal of Finance* 25, 383-417.

Fama, E.F. (1991) Efficient capital markets II, *Journal of Finance*, 46 1575-1617.

Fama, E.F. (1998) Market efficiency, long-term returns and behavioural finance, *Journal of Financial Economics* 49, 283-306.

Fortune, P. (1991) Stock Market Efficiency: An Autopsy?, In P.S. Rose (ed.) (1993), *Readings on Financial Institutions and Markets*, 5<sup>th</sup> ed. IRWIN, p.214-237.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 13

Schwert, G.W. (2002) Anomalies and market efficiency, , in G. Constantinides, H. Harris, and R. M. Stulz (eds) *Handbook of the Economics of Finance*, North Holland Publishing Company, Ch 17.

Kenyan Paper?

#### 4.8 **Financial Statements Analysis**

The aim of this topic is to develop an understanding of the demand and supply of accounting information and the role of financial analysis and analysts. It focuses on achieving a balanced view regarding the relevance of accounting information for decision-making and the reliability of accounting statements, as well as on gaining a sound understanding of the basic skills for financial analysis.

##### 4.8.1 **Learning Objectives**

Upon completing this topic, you should be able to:

- Describe the potential users of financial statement data and their differing perspectives;
- Compute and understand the usual financial ratios in cross sectional and time series analysis;
- Analyse and interpret the annual financial statements of limited companies;
- Assess the financial performance of firms and to contrast this performance with that of other firms;
- Discuss the problems associated with comparing financial statements from differing firms, industry, or countries.

##### 4.8.2 **Subtopic**

- Demand and supply of accounting information
- Types and purpose of financial statements
- Role of financial analysis and analysts
- Analysis of Financial Statements
- Ratio analysis
- Techniques in ratio analysis (Cross-sectional techniques and Trend (Time series) Techniques
- Benchmarking in ratio analysis
- Limitations of ratio analysis

##### 4.8.3 **Readings**

Van-Horne, J. (2002) *Financial Management and Policy*, (12<sup>th</sup> edn), Upper Saddle River, New Jersey, Prentice-Hall. Chapter 12, 349-385

Moyer, R.C., McGuigan J.R., and Kretlow W.J. (1995) *Contemporary Financial Management* 6<sup>th</sup> edition, West Publishing Company, Chapter 4, p.98-155.

Brealey, R. A., Myers, S. C. and Marcus, A.J. (2001) *Fundamentals of Corporate Finance* (3<sup>rd</sup> edn), Boston, McGraw-Hill, Irwin, Chapter 17, p.485-512.

## 4.9 Financial Forecasting, Planning, Budgeting and Control

Financial forecasting, planning, budgeting, and control are essential element to the strategic growth of the firm. This topic aims at instilling these concepts into the students.

### 4.9.1 Learning Objectives

Upon completing this topic, you should be able to:

- Explain the role of financial planning in the strategic planning process
- Construct pro forma financial statements and use them to identify the firm's external financing requirements
- Use the breakeven techniques for profit planning and discuss its limitations
- Prepare cash budgets and use it to identify the amount and timing of a firm's short term financing needs
- Forecast firms' financial requirements

### 4.9.2 Subtopics

- Financial forecasting
  - Cash flow cycle
  - Percentage of sales method
  - Statistical methods
- Profit planning
  - Break-even analysis
  - Funds flow analysis
- Budgeting
  - Budgeting Process
  - Cash budgeting

### 4.9.3 Readings

Brealey, R. A., Myers, S. C. and Marcus, A.J. (2001) *Fundamentals of Corporate Finance* (3<sup>rd</sup> edn), Boston, McGraw-Hill, Irwin, Chapter 18, p.517-543.

Moyer, R.C., McGuigan J.R., and Kretlow W.J. (1995) *Contemporary Financial Management* 6<sup>th</sup> edition, West Publishing Company, Chapter 14, p.552-563.

Van-Horne, J. (2002) *Financial Management and Policy*, (12th edn), Upper Saddle River, New Jersey, Prentice-Hall, Chapter 13, p.387-419

Weston, J. F. and Brigham, E.F. (1981) *Managerial Finance* 7<sup>th</sup> edition, Holt Sainders, chapters 3-5.

## 4.10 Dividend Policy

The aim of this topic is to develop an understanding of dividend policy, its nature, and its implication for the trade-off between the need to reward shareholders in return of their capital and the goal of financial managers of enhancing value through growth. It is strongly believed that managers and owners of businesses should think hard about the circumstances under which earnings should be retained and under which they should be distributed.

#### 4.10.1 Learning Objectives

Upon completing this topic, you should be able to:

- Understand the nature of dividend payments and describe the trade-off between paying dividends and retaining profits within the company.
- Explain the relationship between a firm's dividend policy and the market value of its shares, i.e. dividend as a signalling device.
- Discuss the theories underpinning dividend policies and the assumptions underlying the Modigliani and Miller irrelevancy argument.
- Distinguish among the types of dividend policies corporations frequently use and highlight the factors that may influence the decision to pay and the form of dividends.

#### 4.10.2 Subtopics

- Describe dividend payment procedures.
- The nature of dividends (How are they paid?)
- Determinants of dividend policy (How do companies decide on dividend payments?)
- Dividends, repurchases, and share price valuation
- The irrelevancy of dividend policy
- The influence of taxes.

#### 4.10.3 Readings

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 16, p.432-463.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 18,495-531.

#### 4.11 Working Capital Management

The aim of this topic is to examine various practices used to manage the individual components of the working capital – Credit, Inventory and Cash, as well as the overall balance of current assets and liabilities. The costs and benefits of investing in stocks, debtors, and cash will also be considered.

#### 4.11.1 Learning Objectives

Upon completing this topic, you should be able to:

- Describe the risk return trade-off involved in managing firm's working capital and explain the determinants of the working capital of a firm.
- Discuss the reasons for carrying inventory and explain how inventory management decisions are made.
- Discuss the reasons for holding cash, explain various cash management objectives and decisions, describe, and analyse different mechanisms for managing the firm's cash collection and disbursement procedures.

#### 4.11.2 Subtopics

- Components of working capital
- Long-term financing decision and short-term financial planning
- Principle forms and sources of short-term financing

- Working capital management:
  - Inventories management
  - Cash management
  - Credit analysis

### 4.11.3 Readings

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter 30-32, p.850-925.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 27-29, 746-814.

## 4.12 Lease Financing

This topic will explain the difference between an operating lease and a financial lease and set out the principles for evaluating lease contracts, including the financial implications when an asset is leased and not purchased outright. The various other non-financial factors influencing lease decisions will also be examined.

### 4.12.1 Learning Objectives

Upon completing this topic, you should be able to:

- Explain what a lease is, and distinguish the different types of leases and lease contracts
- Evaluate the reasons for leasing and explain why some assets are leased more than are others.
- Evaluate lease contract proposals and recommend whether it would be profitable to buy or lease the asset under consideration, including taking into account the factors that may influence the decision.

### 4.12.2 Subtopics

- What is a lease?
- Reasons for leasing
- Types of leases
  - Operating leases
  - Financial leases
- Evaluating financial leases
  - The cash flow consequences of lease
  - The lease-buy decision analysis

### 4.12.3 Readings

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7th edn), Boston, McGraw-Hill, Irwin, Chapter, 729-751.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6th edn), New York, McGraw-Hill, Chapter 21, 586-610.

Van-Horne, J. (2002) *Financial Management and Policy*, (12th edn), Upper Saddle River, New Jersey, Prentice-Hall, Chapter 18, p.543-564.

## 5.0 COURSE ASSESSMENT

The course will be assessed by three components, namely; one timed test, a term paper, and the final examination.

### **5.1 Timed Test.**

This will be administered once, preferably in August, along side the other university timed test sessions at a centre identified by the Director of regional centre.

### **5.2 Term paper**

The student will be required to prepare a research-oriented term paper on a selected topic. Each year a topic will be chosen and detailed guidelines will be given. It could be a pure research topic, an analytical case, or a combination of the two. This way, you are given a chance to put the analytical tools learned from this course and the techniques from other courses such as OBS 610 Business research methods into practice. Examples of the topics are financial statement analysis, capital budgeting, working capital management, etc.

### **5.3 Final Examination**

The final examination will examine the whole course. Questions will be constructed to contain a fair balance of problems, short answers, and discussion questions (not multiple choices). The examination will be administered during the normal university examination session, i.e. in October. Students failing to take examination at this time (having officially notified the faculty of their extenuating circumstances) will take the examination in May the following year, as special examination.

### **5.4 Weighting of the Course Assessment**

The weighting of the assessment will be as follows:

Timed test	20%
Term paper	30%
Annual examination	50%
<b>Total</b>	<b>100%</b>

**The pass mark shall be 50%**

## **6.0 COURSE MATERIALS**

### **6.1 Basic Texts.**

Recognising the diverse nature of postgraduate students in business, many books maintain a balanced combination of mathematics/statistics and theoretical intuition. Having this in mind, the selection of reference materials for this course was done in such a way to avoid excluding those students who are, or might have become, allergic to quantification.

The following two books are equally good and are thus recommended. The first is probably the most widely used introductory text in finance at the graduate level. It leans more towards the intuition behind the theories and concepts. The second book offers similar coverage. However, some of the analysis in it is possibly presented in a

more straightforward fashion. The choice between them will remain one of availability and personal preference. In absence of financial constraints, you may look at both.

Brealey, R. A. and Myers, S. C. (2003) *Principles of Corporate Finance* (7<sup>th</sup> edn), Boston, McGraw-Hill, Irwin.

Ross, S. A., Westerfield, R. W. and Jaffe, J. F. (2002) *Corporate Finance*, (International 6<sup>th</sup> edn), New York, McGraw-Hill.

## 6.2 Other Recommended Texts

The following texts cover a similar range of topics to those by Brealey and Myers and Ross *et al.* They may be used to obtain different perspectives on topics that remain unclear after reading one of the main texts.

Arnold, G. (1998) *Corporate Financial Management*, London, Financial Times Pitman Publishing.

Brealey, R. A., Myers, S. C. and Marcus, A.J. (2001) *Fundamentals of Corporate Finance* (3<sup>rd</sup> edn), Boston, McGraw-Hill, Irwin.

Copeland, T.E. and Weston F.M. (1988) *Financial Theory and Corporate Policy*, Addison Wesley, 3<sup>rd</sup> ed.

Foster, G. (1986) *Financial Statement Analysis*, Prentice Hall Inc.

Gitman, L. J. (1991) *Principles of Managerial Finance*, Harper and Row

Hill, A. (1998) *Corporate Finance*, London, Financial Times Pitman Publishing.

Levy, H. and Sarnat (1986) *Capital Investments and Financial Decisions*, Prentice Hall, 3<sup>rd</sup> ed.

Moyer, R. C., McGuigan, J. R., and Kretlow, W. J. (1995) *Contemporary Financial Management*, (6<sup>th</sup> edn), St. Paul, West Publishing Company.

Pandey, I. M. (1995) *Financial Management*, (Revised 6<sup>th</sup> edn), New Delhi, Vikas Publishing House Pvt Ltd.

Ross, S. A., Westerfield, R. W. and Jordan, B. D. (2000) *Fundamentals of Corporate Finance* (5<sup>th</sup> edn), Boston, McGraw-Hill

Rwegasira, K. S. P (1991) *Financial Analysis and Institutional Lending Operations Management in a Developing Country*, DUP.

Van-Horne, J. (2002) *Financial Management and Policy*, (12<sup>th</sup> edn), Upper Saddle River, New Jersey, Prentice-Hall.

Welsch, G. A., Hilton, R. W., and Gordon, P. N. (1990) *Budgeting, Profit Planning and Control*, (5<sup>th</sup> edn), New Delhi, Prentice Hall of India.

Weston, F. and Brigham, E. (1993) *Essentials of Managerial Finance* 10<sup>th</sup> ed., The Dryden Press, HBJ College Publishers, New York.

Weston, J. F. and Brigham, E.F. (1981) *Managerial Finance* 7<sup>th</sup> edition, Holt Sainders.

Many of these books are available at OUT HQ library, its regional centres, or appropriate sections in the Tanzania Library Services (TLS) branches. Some of them are available at bargain prices in bookstalls in the city and other towns (shop around).

Other institutional libraries should have some of them (take the initiative). The list above is also not exhaustive. Many other books in finance cover the intended materials. Be curious but guided by this outline and explore them wherever you find them.

### **6.3 Journal Articles and Other Periodicals**

A number of journal articles are included in the compendia. For each topic covered, several articles exist that one could read and gain a good insight on the empirical evidence reported on a given topic. Depending on availability and relevance, you are encouraged to find and read more of such articles. For example, the following journals are available at the University of Dar es Salaam:

Journal of Finance  
Business Management Review  
Journal of Economics and Business  
Journal of Financial and Quantitative Analysis  
Journal of Financial Economics  
Journal of Accounting and Economics  
Journal of Accounting Review  
Journal of African Economics  
Journal of Business  
Journal of Business Finance and Accounting  
African Journal of Finance and Management

With the revolution in distance learning brought about by the internet, students are encouraged to begin learning and using internet to search for information relevant to their subjects of study. There are many downloadable learning resources available on the internet including sites, which publish working papers.