

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

**MASTER OF BUSINESS ADMINISTRATION (MBA)
THE DISTANCE PROGRAMME**

OFN 605: Advanced Corporate Finance

Course Outline

Course objectives, Description and Learning Outcomes

Corporate finance is becoming more dynamic and challenging both globally and in Tanzania. The past few years have seen fundamental changes in financial markets and instruments as well as new developments in corporate financial theories and practices. Firms are also operating in a more dynamic environment. Advanced Corporate Finance is designed not only to take students to a higher level but also to introduce them to recent literature and developments in a number of areas in Financial Management. The aim is to master the selected topics that are significant and of contemporary nature and equip students with the ability to apply theoretical concepts in finance to problems in the area of corporate finance with all the complexities that the real world entails.

This course extends and applies the principles of corporate finance covering some of the main areas in corporate finance namely: the financing decision; financial markets, instruments and investments in financial assets; portfolio theory; dividend policy; corporate restructuring and mergers and acquisitions. A key objective is to demonstrate the link between those various decisions and areas by, for example, exploring how the firm's financing, investment and payout policies interact with each other and how those decisions have implications for corporate bankruptcy and takeovers. Some specific objectives include:

- To acquire knowledge of broad financial concepts
- To enhance skills in obtaining information on current financial issues
- To apply knowledge to specific problems and cases
- To evaluate special areas, including venture capital, mezzanine financing, bankruptcy and mergers
- To become aware of some international issues in finance

On successful completion of this course students should:

- have acquired a knowledge and understanding of the concepts and mainstream theories in corporate finance including recent developments in the area;
- be able to evaluate the strengths and limitations of up-to-date theories and practices in corporate finance;
- be able to derive some financial theories, evaluate financial theories and apply financial theories in corporate financial management and policy making
- have gained experience in writing an assessed essay, paper or report in advanced corporate finance

Course Evaluation and Grading

The course will be evaluated through a term paper, assignments and presentations, a mid-semester exam and the final exam. The following weights are assigned to each evaluation category;

Term Project (See the Guidelines below)	30 points
Timed Test	20 points
Final exam	<u>50 points</u>
Total evaluation for the course	100 points

COURSE COVERAGE AND STUDYING PLAN

NO	TOPIC AND SUB-TOPIC	Recommended Time Allocation (Hours)
1	Introduction to Advanced Corporate Finance	20
	<ul style="list-style-type: none"> ◆ A recapitulation of Financial Analysis ◆ Taxonomy of Financial Instruments ◆ Financial Markets and the Efficient Market Hypothesis ◆ Introduction to Securities and Business Valuation 	
2	FINANCING DECISIONS AND CAPITAL STRUCTURE	15
	<ul style="list-style-type: none"> ◆ Financing Alternatives and Instruments ◆ Financial Structure, Capital Structure and the Cost of Capital ◆ Financing Decisions and Firm Value 	
3	DIVIDEND POLICY (Theories, issues and Considerations)	15
	<ul style="list-style-type: none"> ◆ An Overview and issues in Dividend Policy ◆ Dividend Policy Theories ◆ Practical considerations in Determining Dividend Policy 	
4	PORTFOLIO: THEORY AND INVESTMENT DECISIONS	20
	<ul style="list-style-type: none"> ◆ Theories and portfolio creation process ◆ Measurement of portfolio performance ◆ An Overview of Portfolio Management 	
5	CORPORATE RESTRUCTURING	10
6	MERGERS AND ACQUISITIONS	20
7	INTRODUCTION TO DERIVATIVE SECURITIES AND FINANCIAL ENGINEERING	20
	<ul style="list-style-type: none"> ◆ Options, Futures and Forward Contracts ◆ Options and Hedging Strategies 	
	Minimum Recommended Time Allocation (Hours)	120

Learning Resources References

There is no single text that is recommended for this course. Being an advanced comprehensive course in Business Finance, any good Corporate Finance/Financial Management text book that covers advanced finance topics is very helpful.

Below are some useful books. Students are strongly advised to make every effort to secure at least a copy of one of these texts. Latest editions are highly recommended but editions that are few years old may also be useful. In addition, you are encouraged to search for specific cases and academic articles which are relevant to the topics covered. Reference No. 10 below is an example of sources of guidance on how to write an academic piece of work. If you can not find this, there exist a number of equally good alternatives.

1. Brealey, R. and S. Myers (2000): *Principles of Corporate Finance*, (6th edition). McGraw Hill, New York: NY
2. Brealey, R., S. Myers and A. Marcus (2001): *Fundamentals of Corporate Finance*, (3rd edition). McGraw Hill, New York: NY
3. Firer, Colin; Stephen A. Ross; Randolph W Westerfield and Bradford D. Jordan (2005) *Fundamentals of Corporate Finance*, (3rd South African Edition) McGraw-Hill Companies, Berkshire UK
4. Kester, W. Carl; Richard S. Ruback and Peter Tufano (2005) *Cases Problems in Finance* (12th Edition) McGraw-Hill International Edition, New York, NY
5. Kolb, Robert W., (2000): *Futures, Options and Swaps*, (3rd Edition) Blackwell Publishing Ltd, Oxford UK
6. Moyer, Charles R. James R McGuigan and William J Kretlow (2001) *Contemporary Financial Management* (8th Edition), South-Western College Publishing
7. Oberuc, Richard E. (2004) *Dynamic Portfolio Theory and Management: Using Active Asset Allocation to Improve Profits and Reduce Risk* McGraw-Hill
8. Ross, Stephen A.; Randolph W Westerfield and Bradford D. Jordan (2001) *Essentials of Corporate Finance*, (3rd South African Edition) McGraw-Hill Higher Education, New York, US
9. Bodie, Zvi, Alex Kane, and Alan J. Marcus, (2003) *Essentials of Investments* 5th Edition, McGraw Hill, New York, NY.
10. Sauders M., P.Lewis, and A. Thornhill (2003), *Research Methods for business Students*, Ashford Clour Press Ltd.

Final note: If you have any problem or doubt with the topics, the materials covered or the term paper topics please get in touch with the program coordinator or course facilitator. They are there to work with you!

GUIDELINES FOR THE TERM PAPER PROJECT

The project should essentially be a literature based piece of work that has significant theoretical, knowledge, practical and policy contributions and implications. It is expected to draw heavily on empirical evidences – particularly pertaining to Tanzania. For the purpose of this course the projects are expected to be library-research based rather than field data based. Secondary data can, however, be employed where appropriate and available.

Some suggested topics will be given but students are at liberty to pick other areas as long as they are within the coverage of the course. Students are advised to develop theses for their projects at the beginning of the course.

The paper must consistently use known reference and citations format particularly the MLA and APA. Each student is strongly encouraged to read different articles in the relevant areas (finance, business, economics etc) for the purpose of 'getting the feel' of the appropriate writing approach and making choice of the reference/citation format as well as the writing style.

It is important to note that one way of learning is by looking at what has been done by others. Thus, the best way of knowing what a paper/project is, what it entails, and appreciate its rigor, is through reading some good papers in different areas. The point here is, before you sit down to write a synopsis for your project, go through similar materials that you can find. After all you do not need to re-invent the wheel to make a better one!

Synopsis and its Guidelines

To help the course facilitator understand the idea of your project, you are required to prepare and submit a short synopsis/concept brief – 1-2 pages – about the idea. The synopsis needs to be e-mailed to, and the student receives feedback from, the course facilitator before embarking on writing a full project. The contents of the synopsis are as follows:

- 1. Proposed Title** – This should be able to convey the overall meaning/intention of the idea but not excessively long
- 2. Background to the idea** – This introduces the reader to what the idea is all about.

It should be a one- or two-paragraph part intended to introduce the idea that you are going to work on and pave the way to making the problem statement or stating the main issue to be addressed in the idea. Your background has to be able to lead the reader to your problem statement or main issue/objective and must be supported by relevant literature!

- 3. The problem statement** – In this one-paragraph part you are stating and making clear/ apparent the issue/ challenge/ problem that you are going to address and/or the objective to be achieved. The motivation for your idea can be stated here but it can also be stated it in the background or in the significance. Remember: If you are writing on an issue where similar work already exists you need to convince that yours is not only different but also has a contribution that is significant.

4. The significance of the idea:

The central issues here are “What is the significance or use of addressing the issue/ challenge/ problem?”; “What are its contributions – to knowledge, practice, policy etc?”

5. Selected References

In developing your idea you surely must have gone through some relevant literature. In this part you need to indicate the key literatures that you have gone through and have identified as relevant to your idea and are going to be used in addressing the issue/challenge/ problem in your idea. My interest is on 5–8 pieces of literature that are more empirical in nature – i.e. journal articles, dissertation/thesis and research report.

REMEMBER: If you are going to write a project that uses data you need to be certain of data availability – within the duration of the course – before submitting your synopsis.

PROJECT TOPICS

One way of writing a library-research based project is to critically review empirical works on a specific area in a manner that also ensures that your works has some new contribution. For example the significance of a paper titled “Empirical Evidence on Money, Prices and Output” is not just to put together what has been done on Money, Prices and Output, but to provide an opportunity to discuss the different approaches monetary economists have taken to estimate the effects of money and monetary policy on these economic variables. This paper can also be used to serve as a benchmark for judging theoretical models. Unearthing critical similarities and differences and their possible causes, as well as your own assessments are very critical when reviewing empirical evidences.

Some Suggested themes for Projects

1. Empirical Review of the Impact of Capital Structure on the Value of the Firm
2. Development of a Portfolio using specific portfolio theory and real life data on securities
3. Mergers and acquisition: Analysis of some Specific Cases. For example you can identify a merger and discuss the main issues related to and arising from the merger including but not limited to the offer, defense strategies employed, valuation and post-merger politics.
4. Issues and Challenges in Pricing New Securities: Some Empirical Evidences
5. Impact of Corporate Mergers and Acquisition on the Shareholders' Wealth: Some Empirical Evidences
6. A Review of Empirical Evidences on the Determinants of Gearing for SMEs
7. An evaluation of Corporate Restructuring Options and their Determinants
8. Market Anomalies: Their Effects and how they have Changed Overtime
9. Effects of Dividend Policy on the Value of the Firm
10. An Examination of Empirical Evidences on the Use of Derivative Securities in Managing Risk
11. A CRITICAL Assessment of Leveraged Recapitalization as a business Transition Instrument
12. Corporate Restructuring: Identify a firm that has undergone restructuring and discuss the main issues related to and arising from the restructuring.
13. Critical discussion of the different defense strategies that targets employ in a hostile takeover situation (You will need to cite specific cases)