

# IB125-15 Foundations of Financial Management

**20/21**

**Department**

Warwick Business School

**Level**

Undergraduate Level 1

**Module leader**

Jesus Gorrin

**Credit value**

15

**Module duration**

10 weeks

**Assessment**

Multiple

**Study location**

University of Warwick main campus, Coventry

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## Description

### Introductory description

N/A.

[Module web page](#)

### Module aims

- Introduce students to the key concepts of Financial Management in a way that builds sound intuition from the outset, without sacrificing rigour.
- Prepare the foundations for more advanced study of Finance by encouraging students to develop a critical understanding of the main theories and models of Financial Management.
- Provide students with structured opportunities to practise using the key tools and techniques of Financial Management.
- Encourage students to read the financial press and connect with their learning in the classroom.

### Outline syllabus

This is an indicative module outline only to give an indication of the sort of topics that may be covered. Actual sessions held may differ.

Financial Arithmetic: Discounted cash flow, annuities, perpetuities, Gordon growth model, net present value, internal rate of return.

Financial Markets: Equities, bonds, interest rates, currencies.

Market Efficiency: Efficient Markets Hypothesis, empirical tests, calendar anomalies, speculative bubbles.

Project Appraisal: Incremental cash flows, cost of capital, inflation, tax, economic rent, managerial flexibility and examples of real options.

Cost of Capital: CAPM, weighted average of cost of equity and cost of debt.

Company Financing: Raising financing, equity vs. debt, pecking-order hypothesis, rights issues, underwriting.

Capital Structure: Irrelevance propositions, taxes, costs of financial distress, agency effects, signalling.

Dividend Policy: Irrelevance proposition, taxes, transactions costs, signalling, agency effects, share buy-backs as an alternative to dividends.

Financial Planning: Short-term and long-term liability management.

Exchange Rates: Spot rates and forward rates, Interest-Rate Parity theorem, Purchasing-Power Parity.

Exchange-Rate: Transaction risk, translation risk, economic risk.

Internal vs. external hedging.

Risk Management.

Shareholder Value: Key shareholder ratios (e.g. earnings per share, dividend yield, price-earnings ratio). Key drivers of shareholder value.

Tesco case-study: Integrative exercise using CAPM, Gordon growth model and discounted cash-flow techniques to price Tesco shares.

## Learning outcomes

By the end of the module, students should be able to:

- Critically appraise the value added by a capital project by calculating the present value of expected future cash flows, and estimating the cost of capital.
- Describe how inflation and tax impact project appraisal.
- List the different forms of market efficiency, and interpret the results of key empirical tests of the Efficient Markets Hypothesis.
- Compare and contrast the main sources of financing for a company.
- Explain what is meant by capital structure and dividend policy, and discuss the relevance of each to corporate financial management.
- Explain the importance of financial planning over both the short term and long term.
- Distinguish between spot and forward exchange rates.
- State and apply the Interest Rate Parity and Purchasing Power Parity theorems in the context of foreign exchange.
- Define key shareholder ratios (e.g. earnings per share, dividend yield and price-earnings ratio) and use discounted cash-flow techniques to estimate share prices.
- List and challenge the assumptions underpinning each of the key models studied.
- Reflect critically on the limitations of each of the models studied.

## Indicative reading list

Hillier, D., Ross, S., Westerfield R., Jaffe, J., and Jordan B. Corporate Finance. (Third European Edition, McGraw-Hill, 2016).

Brealey RA, Myers SC & Marcus AJ. Fundamentals of Corporate Finance (9th edition, McGraw-Hill 2017).

Pike R, Neale B, Akbar S (with Linsley P.). Corporate Finance and Investment (9th edition, Pearson 2018).

Arnold G. Essentials of Corporate Financial Management (5th edition, Pearson, 2012).

## Subject specific skills

Use discounted cash-flow techniques to value financial securities and/or estimate the value added by capital projects.

Construct spreadsheets to calculate Net Present Values and Internal Rates of Return.

## Transferable skills

Use spreadsheet modelling skills.

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## Study

### Study time

| Type          | Required                     |
|---------------|------------------------------|
| Lectures      | 10 sessions of 2 hours (13%) |
| Seminars      | 9 sessions of 1 hour (6%)    |
| Private study | 48 hours (32%)               |
| Assessment    | 74 hours (49%)               |
| Total         | 151 hours                    |

### Private study description

Private Study.

## Costs

No further costs have been identified for this module.

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## Assessment

You do not need to pass all assessment components to pass the module.

## Assessment group D2

|  | Weighting | Study time |
|--|-----------|------------|
| Participation  | 10%       | 9 hours    |
| Participation in activities on a weekly basis via my.wbs |           |            |
| Online Examination                                       | 90%       | 65 hours   |
| Exam   |           |            |
| ~Platforms - AEP   |           |            |

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- Answerbook Green (8 page)
  - Students may use a calculator

## Assessment group R

|                            | Weighting | Study time |
|----------------------------|-----------|------------|
| Online Examination - Resit | 100%      |            |
| Exam                       |           |            |
| ~Platforms - AEP           |           |            |

## Feedback on assessment

Feedback via my.wbs.

[Past exam papers for IB125](#)

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## Availability

### Post-requisite modules

If you pass this module, you can take:

- IB266-15 Fundamentals of Finance

## Courses

This module is Core for:

- UIBA-N203 BSc in International Management
  - Year 1 of N203 International Management
  - Year 1 of N203 International Management
  - Year 1 of N238 International Management with Finance
  - Year 1 of N256 International Management with Marketing
- UIBA-N201 BSc in Management
  - Year 1 of N201 Management
  - Year 1 of N20B Management
  - Year 1 of N230 Management with Finance
  - Year 1 of N232 Management with Finance
  - Year 1 of N250 Management with Marketing
- Year 1 of UIBA-N140 Undergraduate International Business

This module is Optional for:

- Year 1 of UIBA-MN31 Undergraduate Law and Business Studies