

# IB132-12 Foundations of Finance

**20/21**

**Department**

Warwick Business School

**Level**

Undergraduate Level 1

**Module leader**

Giorgia Barboni

**Credit value**

12

**Module duration**

9 weeks

**Assessment**

Multiple

**Study location**

University of Warwick main campus, Coventry

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## Description

### Introductory description

This module sets the foundations for students based outside WBS who may be planning to study Finance in more depth in electives such as IB253 Principles of Finance 1 and IB254 Principles of Finance 2. There are no pre-requisites.

[Module web page](#)

### Module aims

The module aims:

- (a) To introduce the basic economics that underlie the key financial management decisions taken by firms.
- (b) To prepare the foundations for more advanced study of Finance by encouraging you to develop a critical understanding of the main theories in Finance and the assumptions that underpin them.
- (c) To provide you with opportunities to practise using the key tools and techniques of Finance.
- (d) To encourage you to read the financial press and to make links with what you are 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.

Topics covered include:

- Time value of money, compounding and discounting, future and present values of cash flows.
- Financial arithmetic: Annuities, perpetuities, applications to stock and bond valuation, Gordon Growth Model.
- Fundamentals of stocks and bonds.
- Capital budgeting in perfect markets and risk neutrality: Net present value, internal rate of return and incremental cash flows, profitability index, payback rule, advantages and disadvantages, evidence from surveys on the preference of managers for capital budgeting techniques.
- Credit risk and probability of default, promised vs. expected interest rates and default premia, capital budgeting under uncertainty with debt and equity financing assuming risk neutrality.
- Risk aversion, Cost of Capital using the CAPM, capital budgeting in perfect markets under risk aversion, risk premia, empirical evidence on the validity of the CAPM, econometric methods to test the CAPM. -Weighted average of cost of equity and cost of debt, valuation from comparables.
- Capital Budgeting in imperfect markets: informationally inefficient markets, taxes, transaction costs, inflation, disagreement, bid/ask spreads.
- Definitions of market efficiency, and evidence from empirical tests - Capital Structure Irrelevance propositions, taxes, costs of financial distress, agency effects, signalling. -Company Financing: Raising financing, equity vs. debt, pecking-order hypothesis.
- Dividend Policy Irrelevance proposition, taxes, transactions costs, signalling, agency effects, share buybacks as an alternative to dividends, evidence from managerial surveys.
- Financial Derivatives Options basics, valuation of put and call options at expiration, put call parity, risk management and hedging, Black Scholes pricing.

## Learning outcomes

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

- Calculate the present value of various projects, using notions such as expected future cash flows, and cost of capital.
- 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.
- Define the different forms of market efficiency, and discuss the findings of 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.
- Price simple financial option contracts.
- Analyse how different factors, like the time value of money, default probability and risk, affect a project's present value.
- Analyse how present value calculations need to be adjusted in the presence of market

frictions and imperfections.

- Explain what is meant by capital structure and dividend policy decisions, and discuss the relevance of each to corporate financial management.
- Price simple financial option contracts.
- Interpret empirical evidence, and solve numerical problems.
- Explain key theoretical models and the assumptions that underpin them, and reflect critically on the limitations of those models.
- Interpret empirical evidence.
- Solve numerical problems and analyse case-study information.
- Communicate complex ideas effectively, both verbally and in writing.

## Indicative reading list

Main text book: Welch, Ivo: Corporate Finance (4th Edition, 2017).

Additional source: Hillier, Ross, Westerfield, Jaffe & Jordan: Corporate Finance (European ed., McGraw-Hill 2010).

## Subject specific skills

Write informed critiques of key issues in Finance.

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, and to price simple financial option contracts.

## Transferable skills

Discuss topical issues about the theory and practice of Finance.

Explain and interpret financial market information.

Solve structured numerical problems.

Construct spreadsheets to value financial instruments and test the robustness of those values to changes in key inputs.

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## Study

### Study time

Type	Required
Lectures	10 sessions of 2 hours (17%)
Seminars	9 sessions of 1 hour (8%)
Private study	33 hours (28%)
Assessment	58 hours (48%)
Total	120 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.

Students can register for this module without taking any assessment.

### Assessment group D2

	<b>Weighting</b>	<b>Study time</b>
Participation	10%	9 hours
Participation in activities on a weekly basis via my.wbs		
Online Examination Exam	90%	49 hours
~Platforms - AEP		

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- Students may use a calculator

### Assessment group R

	<b>Weighting</b>	<b>Study time</b>
Online Examination Exam	100%	
~Platforms - AEP		

## Feedback on assessment

Feedback on the performance of the cohort as a whole will:

- Indicate how many students correctly answered each multiple-choice question in the class test.
- Highlight the most common mistakes or deficiencies in the answers to each of the questions

in the final examination.

[Past exam papers for IB132](#)

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## Availability

### Courses

This module is Core for:

- UECA-3 Undergraduate Economics 3 Year Variants
  - Year 1 of L116 Economics and Industrial Organization
  - Year 1 of L116 Economics and Industrial Organization

This module is Core optional for:

- Year 1 of UIBA-MN37 Undergraduate Law and Business Studies (Qualifying Degree) with Intercalated Year
- Year 1 of UIBA-MN36 Undergraduate Law and Business Studies with Intercalated Year (4+1)

This module is Optional for:

- Year 3 of UESA-HN11 BSc Engineering and Business Studies
- UECA-3 Undergraduate Economics 3 Year Variants
  - Year 1 of L100 Economics
  - Year 1 of L100 Economics
  - Year 1 of L100 Economics
  - Year 1 of L116 Economics and Industrial Organization
  - Year 1 of L116 Economics and Industrial Organization
- UECA-LM1D Undergraduate Economics, Politics and International Studies
  - Year 1 of LM1D Economics, Politics and International Studies
  - Year 1 of LM1D Economics, Politics and International Studies
- Year 2 of UIBA-MN37 Undergraduate Law and Business Studies (Qualifying Degree) with Intercalated Year
- Year 2 of UIBA-MN36 Undergraduate Law and Business Studies with Intercalated Year (4+1)
- Year 3 of UMAA-G1NC Undergraduate Mathematics and Business Studies
- Year 2 of USTA-G1G3 Undergraduate Mathematics and Statistics (BSc MMathStat)
- Year 3 of UPXA-F3N1 Undergraduate Physics and Business Studies

This module is Option list A for:

- Year 4 of UPXA-F3ND Undergraduate Physics and Business Studies (with Intercalated Year)

This module is Option list B for:

- UMAA-G100 Undergraduate Mathematics (BSc)
  - Year 2 of G100 Mathematics
  - Year 2 of G100 Mathematics
  - Year 2 of G100 Mathematics
- UMAA-G103 Undergraduate Mathematics (MMath)
  - Year 2 of G100 Mathematics
  - Year 2 of G103 Mathematics (MMath)
  - Year 2 of G103 Mathematics (MMath)