

IB125-15 Foundations of Financial Management

21/22

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

Description

Introductory description

- 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.

[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.

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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.

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	73 hours (49%)
Total	150 hours

Private study description

Private Study.

Costs

No further costs have been identified for this module.

Assessment

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

Assessment group D3

	Weighting	Study time
Participation	10%	8 hours
Participation in activities on a weekly basis via my.wbs		
In-person Examination	90%	65 hours
<ul style="list-style-type: none">• Answerbook Green (8 page)• Students may use a calculator		

Assessment group R1

	Weighting	Study time
In-person Examination - Resit Exam	100%	
~Platforms - AEP		

Feedback on assessment

Feedback via my.wbs.

[Past exam papers for IB125](#)

Availability

Post-requisite modules

If you pass this module, you can take:

- IB266-15 Fundamentals of Finance
- IB396-15 Financial Statement Analysis and Security Valuation

Courses

This module is Core for:

- 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-N1RA Undergraduate International Business with French
- Year 1 of UIBA-N1RB Undergraduate International Business with German
- Year 1 of UIBA-N1RC Undergraduate International Business with Italian
- Year 1 of UIBA-N1RD Undergraduate International Business with Spanish
- UIBA-N20F Undergraduate International Management
 - Year 1 of N20F International Management
 - Year 1 of N20F International Management
 - Year 1 of N20S International Management (with Accounting)
 - Year 1 of N20T International Management (with Chinese)
 - Year 1 of N20P International Management (with Entrepreneurship)
 - Year 1 of N20M International Management (with Finance)
 - Year 1 of N20U International Management (with French)
 - Year 1 of N20L International Management (with Marketing)
 - Year 1 of N20V International Management (with Spanish)
 - Year 1 of N20W International Management (with Strategy and Organisation)
 - Year 1 of N20N International Management with Digital Business
 - Year 1 of N20E Management (with Foundation Year)
 - Year 1 of N234 Management with Digital Business
- UIBA-N20E Undergraduate Management (with Foundation Year)
 - Year 2 of N20E Management (with Foundation Year)
 - Year 2 of N23N Management with Accounting (with Foundation Year and Placement Year)
 - Year 2 of N23M Management with Accounting (with Foundation Year)
 - Year 2 of N23E Management with Digital Business (with Foundation Year)
 - Year 2 of N23F Management with Entrepreneurship (with Foundation Year)
 - Year 2 of N23D Management with Finance (with Foundation Year)
 - Year 2 of N252 Management with Marketing
 - Year 2 of N254 Management with Marketing (with Foundation Year)
 - Year 2 of N23P Management with Strategy and Organisation (with Foundation Year)

This module is Optional for:

- Year 1 of UGEA-RN21 Undergraduate German and Business Studies
- Year 1 of UIPA-L8N1 Undergraduate Global Sustainable Development and Business
- Year 1 of UIBA-MN3A Undergraduate Law and Business Studies