IB254-15 Principles of Finance 2

21/22

Department
Warwick Business School
Level
Undergraduate Level 2
Module leader
Irem Erten
Credit value
15
Module duration
10 weeks
Assessment
Multiple
Study location
University of Warwick main campus, Coventry

Description

Introductory description

This is an elective module available for non-WBS students.
Make students critically aware of the key financial decisions taken by firms.
Develop in students a sound understanding of the main theories and models of Corporate Finance.
Make students aware of key empirical tests of models of Corporate Finance, and the implications of those empirical findings.
Provide students with structured opportunities to practice using the key tools and techniques of Corporate Finance.
Prepare students for advanced undergraduate and postgraduate studies in Finance

Module web page

Module aims

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Make students aware of key empirical tests of models of Corporate Finance, and the implications of those empirical findings.
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Corporate Finance.
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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.

Capital Budgeting:
Discounted Cash Flow techniques for appraising capital projects.
Equity valuation:
Dividend growth models, P/E and other methods, growth opportunities.
Real Options:
Investment appraisal under uncertainty.
Cost of Capital:
Weighted average of cost of equity and cost of debt in the presence of taxes.
Risky Debt:
Valuation of risky debt using option pricing. Effects of volatility.
Capital Structure:
Irrelevance propositions, taxes, costs of financial distress, agency costs, signalling.
Payout Policy:
Irrelevance proposition, taxes, transactions costs, signalling, agency effects. Share buy-backs as an
alternative to dividends.
Mergers / Acquisitions:
Vertical vs. horizontal mergers, motives for mergers, methods of financing mergers, merger process.
Initial Public Offerings:
IPO process, under-pricing, under-performance.

Learning outcomes

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

- Critically assess the factors that determine the optimal investment, financing and payout decisions of a firm.
- Compute the cost of capital of a firm under alternative assumptions.
- Identify the reasons why firms raise capital.
- Define key shareholder ratios (e.g. earnings per share, dividend yield and price earnings ratio) and use discounted cashflow techniques to estimate share prices.
- Discuss the main motives for mergers and acquisitions.
- Explain key theoretical models, and reflect critically on the limitations of those models and the assumptions that underpin them.
- Interpret empirical evidence.
- Solve structured numerical problems and analyse case study information
- Communicate complex ideas effectively, both verbally and in writing.

Indicative reading list

REQUIRED TEXT:

Hillier D, Ross SA, Westerfield RW, Jaffe J & Jordan BD, Corporate Finance (2nd ed. 2013), McGraw-Hill

OTHER TEXTS:

Berk J & DeMarzo P Corporate Finance (3rd ed. 2013), Pearson

Copeland TE, Weston JF & Shastri K, Financial Theory and Corporate Policy (4th ed. 2005), Pearson Addison-Wesley

Subject specific skills

Solve structured numerical problems. Write informed critiques of key issues in corporate finance. Analyse case studies and construct arguments to support a particular solution.

Transferable skills

Apply option valuation techniques to value a firm's equity and debt, and its real options.

Use web-based resources to find and retrieve data on companies, and spreadsheets to process that data.

Explain and interpret corporate financial information.

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

No private study requirements defined for this module.

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 D5

	Weighting	Study time
Participation	10%	8 hours
Online Examination	90%	65 hours
Exam		

~Platforms - AEP

- Online examination: No Answerbook required

Assessment group D6

	Weighting	Study time
Participation	10%	8 hours
Online Examination	90%	65 hours

- Online examination: No Answerbook required

Assessment group R1

	Weighting	Study time
Online Examination - Resit	100%	
Exam		

~Platforms - AEP

- Online examination: No Answerbook required

Feedback on assessment

Feedback via My.WBS

[Past exam papers for IB254](#)

Availability

Pre-requisites

To take this module, you must have passed:

- All of
    - [IB132-15 Foundations of Finance](#)
    - [IB253-15 Principles of Finance 1](#)

Courses

This module is Core optional for:

- Year 2 of UPXA-F3N2 Undergraduate Physics with Business Studies

This module is Optional for:

- Year 4 of UIBA-MN34 Law and Business Four Year (Qualifying Degree)
- UECA-3 Undergraduate Economics 3 Year Variants
    - Year 2 of L100 Economics
    - Year 2 of L100 Economics
    - Year 2 of L100 Economics
    - Year 2 of L116 Economics and Industrial Organization
    - Year 2 of L116 Economics and Industrial Organization
    - Year 3 of L116 Economics and Industrial Organization
    - Year 3 of L116 Economics and Industrial Organization
- UECA-LM1D Undergraduate Economics, Politics and International Studies
    - Year 2 of LM1D Economics, Politics and International Studies
    - Year 2 of LM1D Economics, Politics and International Studies
- Year 2 of UIPA-L8N1 Undergraduate Global Sustainable Development and Business
- Year 4 of UIBA-MN32 Undergraduate Law and Business Studies
- Year 5 of UIBA-MN37 Undergraduate Law and Business Studies (Qualifying Degree) with Intercalated Year
- Year 5 of UIBA-MN36 Undergraduate Law and Business Studies with Intercalated Year (4+1)
- USTA-G300 Undergraduate Master of Mathematics,Operational Research,Statistics and Economics
    - Year 3 of G300 Mathematics, Operational Research, Statistics and Economics
    - Year 4 of G300 Mathematics, Operational Research, Statistics and Economics
- USTA-G1G3 Undergraduate Mathematics and Statistics (BSc MMathStat)
    - Year 3 of G1G3 Mathematics and Statistics (BSc MMathStat)
    - Year 4 of G1G3 Mathematics and Statistics (BSc MMathStat)
- USTA-G1G4 Undergraduate Mathematics and Statistics (BSc MMathStat) (with Intercalated Year)
    - Year 4 of G1G4 Mathematics and Statistics (BSc MMathStat) (with Intercalated Year)
    - Year 5 of G1G4 Mathematics and Statistics (BSc MMathStat) (with Intercalated Year)

This module is Unusual option for:

- UPHA-V7ML Undergraduate Philosophy, Politics and Economics
    - Year 3 of V7ML Philosophy, Politics and Economics (Tripartite)

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This module is Option list B for:

- Year 3 of UMAA-G105 Undergraduate Master of Mathematics (with Intercalated Year)
- UMAA-G100 Undergraduate Mathematics (BSc)
  - Year 3 of G100 Mathematics
  - Year 3 of G100 Mathematics
  - Year 3 of G100 Mathematics
- UMAA-G103 Undergraduate Mathematics (MMath)
  - Year 3 of G100 Mathematics
  - Year 3 of G103 Mathematics (MMath)
  - Year 3 of G103 Mathematics (MMath)
- Year 3 of UMAA-G106 Undergraduate Mathematics (MMath) with Study in Europe
- USTA-GG14 Undergraduate Mathematics and Statistics (BSc)
  - Year 3 of GG14 Mathematics and Statistics
  - Year 3 of GG14 Mathematics and Statistics
- Year 4 of USTA-GG17 Undergraduate Mathematics and Statistics (with Intercalated Year)
- Year 4 of UMAA-G101 Undergraduate Mathematics with Intercalated Year
- USTA-Y602 Undergraduate Mathematics,Operational Research,Statistics and Economics
  - Year 3 of Y602 Mathematics,Operational Research,Stats,Economics
  - Year 3 of Y602 Mathematics,Operational Research,Stats,Economics
- Year 4 of USTA-Y603 Undergraduate Mathematics,Operational Research,Statistics,Economics (with Intercalated Year)

This module is Option list G for:

- UPHA-V7ML Undergraduate Philosophy, Politics and Economics
  - Year 2 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 2 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 2 of V7ML Philosophy, Politics and Economics (Tripartite)