IB235-15 Finance 1: Financial Markets

22/23

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

Description

Introductory description

This module will:

- Introduce students to the workings of the financial markets.
- Equip students with the knowledge to use quantitative tools for pricing stocks, bonds and derivatives, and for measuring risk and return.
- Develop in students a sound understanding of the main theories and models for valuing financial market instruments.
- Make students aware of key empirical tests of asset valuation models, and their implications.
- Provide students with structured opportunities to practise using the key tools and techniques of Financial Markets theory.
- Prepare students for advanced undergraduate and postgraduate studies in Finance.

Module web page

Module aims

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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.

Market Efficiency Theory and empirical tests of Efficient Markets Hypothesis.
Asset Valuation Stocks, Bonds, Discounted Cash Flow techniques.
Investor Preferences Risk aversion, Expected utility.
Portfolio Theory Diversification and optimal asset allocation.
Risk vs. Return Capital Asset Pricing Model.
Term Structure Spot rates, forward rates, expected future spot rates.
Pure of interest rates Expectations and Liquidity Preference hypotheses.
Financial derivatives Arbitrage-free futures pricing, binomial option pricing

Learning outcomes

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

- Describe how equity, bond and derivatives markets function, and their importance to both individual investors and corporate decision-makers.
- Explain how these markets determine the prices of stocks, bonds and derivatives.
- Define the different forms of market efficiency, and discuss the findings of empirical tests of the Efficient Markets Hypothesis.
- Assess both theoretical and empirical relationships between risk and return.
- Formulate different hypotheses for the term structure of interest rates.
- 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

Bodie Z, Kane A & Marcus AJ (BKM) Investments (10th edition), McGraw-Hill 2014
Hillier D, Ross SA, Westerfield RW, Jaffe J & Jordan BD (HRWJJ) Corporate Finance (3rd edition), McGraw-Hill 2016
Copeland TE, Weston JF and Shastri K (CWS) Financial Theory and Corporate Policy (4th edition), Pearson (Addison Wesley) 2005
Hull JC (H) Options, Futures and Other Derivatives (9th edition), Pearson (Prentice Hall) 2017

Subject specific skills

1. Discuss topical issues about the theory and practice of financial markets.
2. Construct spreadsheets to value financial instruments and test the robustness of those values to changes in key inputs.
3. Explain and interpret financial market information and data from the financial press.
4. Use web-based resources to find and retrieve financial market data, and spreadsheets to process that data.

Transferable skills

1. Solve structured numerical problems.
2. Write informed critiques of key issues in asset valuation.
3. Analyse case studies and construct arguments to support a particular solution.
4. Construct spreadsheets to: (a) determine the risk-return characteristics of portfolios of risky assets. (b) price stocks, bonds and options.
5. Calculate the forward price of a traded asset using the noarbitrage principle.
6. Price option contracts using the one-period binomial model.
7. Calculate spot and forward rates of interest, and use these to price bonds.

Study

Study time

Type	Required
Lectures	10 sessions of 1 hour (7%)
Seminars	9 sessions of 1 hour (6%)
Online learning (independent)	10 sessions of 1 hour (7%)
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 D2

	Weighting	Study time
Participation	10%	8 hours
Participation in activities on a weekly basis via my.wbs		
In-person Examination	90%	65 hours

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

Assessment group R2

	Weighting	Study time
In-person Examination	100%	
Exam		

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

Feedback on assessment

Feedback via my.wbs.

Past exam papers for IB235

Availability

Pre-requisites

To take this module, you must have passed:

- All of
  - IB114-15 Financial Management

Post-requisite modules

If you pass this module, you can take:

- IB236-15 Finance 2: Corporate Finance
- IB3M1-15 Fintech
- IB3M7-15 Alternative and Responsible Investments
- IB357-15 Investment Management

Courses

This module is Core for:

- Year 2 of UIBA-N400 Undergraduate Accounting and Finance
- Year 3 of UIBA-N403 Undergraduate Accounting and Finance (with Foundation Year)