IB125-15 Foundations of Financial Management

24/25

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

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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

Evaluate the information needed to make relevant financial decisions in practical applications.
Understand the advantages and disadvantages of applying valuation and project appraisal methods in practice.
Apply theoretical knowledge to specific contexts to determine the best firm financing strategies and appropriate investor compensation methods.

Study

Study time

Type	Required
Lectures	10 sessions of 1 hour (13%)
Seminars	9 sessions of 1 hour (12%)
Online learning (independent)	10 sessions of 1 hour (13%)
Private study	48 hours (62%)
Total	77 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 D4

	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 IB125

Availability

There is currently no information about the courses for which this module is core or optional.