IB132-15 Foundations of Finance

24/25

Department
Warwick Business School
Level
Undergraduate Level 1
Module leader
Danmo Lin
Credit value
15
Module duration
10 weeks
Assessment
Multiple
Study location
University of Warwick main campus, Coventry

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

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.
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:

- Critically appraise the value added by a capital project by calculating the present value of expected future cash flows, estimating the cost of capital.
- Demonstrate an understanding of portfolio theory and capital asset pricing model.
- 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
- Explain key theoretical models and the assumptions that underpin them, and demonstrate an understanding of the limitations of those models.
- Draw conclusions from empirical evidence.

- Solve numerical problems and analyse case-study information.
- Communicate ideas effectively, both verbally and in writing.

Indicative reading list

Main text book: Welch, Ivo: Corporate Finance (4th Edition, 2017)
Hillier, Ross, Westerfield, Jaffe & Jordan: Corporate Finance (European ed., McGraw-Hill 2010)
Berk J., and DeMarzo P: Corporate Finance (2nd Edition, Prentice Hall 2011)

Subject specific skills

Demonstrate a solid understanding of the key issues in Finance
Understand how cash-flow techniques can be used 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.
Interpret and explain 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.

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 D6

	Weighting	Study time
Participation	10%	8 hours
Participation in activities on a weekly basis via my.wbs..		
Online Examination	90%	65 hours
Exam		
~Platforms - AEP		

- Online examination: No Answerbook required

Assessment group R3

	Weighting	Study time
Online Examination	100%	
~Platforms - AEP		

- Online examination: No Answerbook required

Feedback on assessment

Feedback will be provided in-class and on my.wbs.

[Past exam papers for IB132](#)

Availability

Post-requisite modules

If you pass this module, you can take:

- IB253-15 Principles of Finance 1

Courses

This module is Core for:

- Year 2 of UESA-HN11 BSc Engineering and Business Studies
- UECA-3 Undergraduate Economics 3 Year Variants
  - Year 1 of L116 Economics and Industrial Organization
  - Year 1 of L116 Economics and Industrial Organization
- Year 2 of UMAA-G1N2 Undergraduate Mathematics and Business Studies (with Intercalated Year)

This module is Core optional for:

- Year 1 of UGEA-RN21 Undergraduate German and Business Studies
- Year 1 of UIPA-L8N1 Undergraduate Global Sustainable Development and Business
- Year 2 of UPXA-F3N1 Undergraduate Physics and Business Studies

This module is Optional for:

- 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 1 of UPHA-L1CA Undergraduate Economics, Psychology and Philosophy
- Year 1 of UPXA-F3N2 Undergraduate Physics with Business Studies

This module is Unusual option for:

- Year 1 of UPHA-L1CA Undergraduate Economics, Psychology and Philosophy

This module is Core option list C for:

- Year 2 of UPXA-F3N1 Undergraduate Physics and Business Studies

This module is Option list A for:

- Year 3 of UESA-HN12 BEng Engineering Business Management

This module is Option list B for:

- Year 2 of USTA-G300 Undergraduate Master of Mathematics,Operational Research,Statistics and Economics

- USTA-Y602 Undergraduate Mathematics,Operational Research,Statistics and Economics
  - Year 2 of Y602 Mathematics,Operational Research,Stats,Economics
  - Year 2 of Y602 Mathematics,Operational Research,Stats,Economics

This module is Option list G for:

- UPHA-V7ML Undergraduate Philosophy, Politics and Economics
  - Year 1 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 1 of V7ML Philosophy, Politics and Economics (Tripartite)
  - Year 1 of V7ML Philosophy, Politics and Economics (Tripartite)
- USX2-Y202 Undergraduate Social Studies [2 + 2]
  - Year 3 of Y202 Social Studies [2 + 2]
  - Year 3 of Y202 Social Studies [2 + 2]