IB2D9-15 Finance in Practice

24/25

Department
Warwick Business School
Level
Undergraduate Level 2
Module leader
Olga Klein
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 would like to understand Finance as a one-off module, or 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

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, and estimating the cost of capital.
- Demonstrate applied knowledge of portfolio theory and capital asset pricing model
- Explain what is meant by capital structure and dividend policy, and be able to apply these concepts in corporate financial management.
- Price simple financial option contracts.
- Explain key theoretical models and the assumptions that underpin them, and critically evaluate the limitations of those models.
- Make and justify decisions from empirical evidence.
- Solve numerical problems and reflect critically upon their implications within real-world scenarios.
- Communicate complex ideas effectively, both verbally and in writing

Indicative reading list

Main text book: Welch, Ivo: Corporate Finance (4th Edition, 2017)
Additional source: 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

Evaluate the relative importance of the key issues in Finance
Apply 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, and to price simple financial option contracts.

Transferable skills

Discuss topical issues about the theory and practice of Finance and reflect critically upon their application in practice.
Interpret and critically evaluate financial market information.
Solve structured numerical problems and reflect critically upon their implications.
Construct spreadsheets to value financial instruments and test and evaluate the robustness of those values to changes in key inputs.

Study

Study time

Type	Required
Seminars	9 sessions of 1 hour (6%)
Online learning (scheduled sessions)	10 sessions of 1 hour (7%)
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 D1

	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 R1

	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 IB2D9

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 UMAA-G1NC Undergraduate Mathematics and Business Studies

This module is Core optional for:

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

This module is Optional for:

- UECA-3 Undergraduate Economics 3 Year Variants
  - Year 2 of L100 Economics
  - Year 2 of L100 Economics
  - Year 2 of L100 Economics
- 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
- UPHA-L1CA Undergraduate Economics, Psychology and Philosophy
  - Year 2 of L1CA Economics, Psychology and Philosophy
  - Year 2 of L1CC Economics, Psychology and Philosophy (Behavioural Economics Pathway)
  - Year 2 of L1CD Economics, Psychology and Philosophy (Economics with Philosophy Pathway)
  - Year 2 of L1CE Economics, Psychology and Philosophy (Philosophy and Psychology Pathway)
  - Year 3 of L1CA Economics, Psychology and Philosophy
  - Year 3 of L1CC Economics, Psychology and Philosophy (Behavioural Economics Pathway)
  - Year 3 of L1CD Economics, Psychology and Philosophy (Economics with Philosophy Pathway)
  - Year 3 of L1CE Economics, Psychology and Philosophy (Philosophy and Psychology Pathway)
- UPHA-L1CB Undergraduate Economics, Psychology and Philosophy (with Intercalated Year)
  - Year 4 of L1CG Economics, Psychology and Philosophy (Behavioural Economics Pathway) (with Intercalated Year)
  - Year 4 of L1CH Economics, Psychology and Philosophy (Economics with Philosophy Pathway) (with Intercalated Year)
  - Year 4 of L1CJ Economics, Psychology and Philosophy (Philosophy and Psychology Pathway) (with Intercalated Year)
  - Year 4 of L1CB Economics, Psychology and Philosophy (with Intercalated Year)
  - Year 4 of L1CB Economics, Psychology and Philosophy (with Intercalated Year)

This module is Unusual option for:

- UPHA-L1CA Undergraduate Economics, Psychology and Philosophy

- Year 2 of L1CA Economics, Psychology and Philosophy
  - Year 3 of L1CA Economics, Psychology and Philosophy

This module is Option list B for:

- Year 2 of UESA-HN15 BEng Engineering Business Management
- Year 2 of UMAA-G105 Undergraduate Master of Mathematics (with Intercalated Year)
- Year 2 of USTA-G300 Undergraduate Master of Mathematics,Operational Research,Statistics and Economics
- UMAA-G100 Undergraduate Mathematics (BSc)
  - Year 2 of G100 Mathematics
  - Year 2 of G100 Mathematics
  - Year 2 of G100 Mathematics
- UMAA-G103 Undergraduate Mathematics (MMath)
  - Year 2 of G100 Mathematics
  - Year 2 of G103 Mathematics (MMath)
  - Year 2 of G103 Mathematics (MMath)
- Year 2 of UMAA-G106 Undergraduate Mathematics (MMath) with Study in Europe
- Year 2 of UMAA-G1N2 Undergraduate Mathematics and Business Studies (with Intercalated Year)
- Year 2 of UMAA-GL11 Undergraduate Mathematics and Economics
- Year 2 of UECA-GL12 Undergraduate Mathematics and Economics (with Intercalated Year)
- Year 2 of UMAA-G101 Undergraduate Mathematics with Intercalated Year
- 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