IB125-15 Foundations of Financial Management

26/27

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

Description

Introductory description

This module is only open to WBS undergraduate students, and some students taking joint degrees with WBS and another department. Students from other departments cannot take this module. To find detailed availability and to apply for this module, log in to my.wbs.ac.uk using your normal IT login details and apply via the my.wbs module application system. Once you've secured a place on my.wbs you should apply via your home department's usual process, which usually takes place via eVision. Note that you do not require the module leader's permission to study a WBS module, so please do not contact them to request it.

This module will cover undergraduate introductory level content with a particular emphasis on firm investment decisions, financing decisions, and payout decisions. We will also discuss how financial markets and securities work, with emphasis on understanding the theories that explain the drivers of financial markets.

The module will be taught using lectures and seminars.

Module web page

Module aims

To introduce you to the key concepts of Financial Management in a way that builds sound intuition from the outset, without sacrificing rigour.
To prepare the foundations for more advanced study of Finance by encouraging you to develop a critical understanding of the main theories and models (and the assumptions that underpin them) of Financial Management.
To provide you with structured opportunities to practise using the key tools and techniques of Financial Management.
To encourage you to apply the deep finance theories to understand the real-world phenomena.

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

Reading lists can be found in Talis

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.
Discuss 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 (7%)
Seminars	9 sessions of 1 hour (6%)
Online learning (scheduled sessions)	10 sessions of 1 hour (7%)
Total	150 hours

Type	Required
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 D5

	Weighting	Study time	Eligible for self-certification
Participation	10%	8 hours	No
Participation in activities on a weekly basis via my.wbs			
Centrally-timetabled examination (On-campus)	90%	65 hours	No

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

Assessment group R3

	Weighting	Study time	Eligible for self-certification
In-person Examination	100%		No
Exam			

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

Feedback on assessment

Feedback via my.wbs.

Past exam papers for IB125

Availability

Post-requisite modules

If you pass this module, you can take:

- IB266-15 Fundamentals of Finance
- IB396-15 Financial Statement Analysis and Security Valuation

Anti-requisite modules

If you take this module, you cannot also take:

- IB114-15 Financial Management
- IB2D9-15 Finance in Practice
- IB132-15 Foundations of Finance

Courses

Course availability information is based on the current academic year, so it may change.
This module is Core for:

- Year 1 of UECA-L1N3 BSc Economics and Management with Placement Year
- UIBA-N20B BSc in Management
    - Year 1 of N20B Management
    - Year 1 of N20B Management
    - Year 1 of N23K Management with Accounting
    - Year 1 of N234 Management with Digital Business
    - Year 1 of N235 Management with Entrepreneurship
    - Year 1 of N232 Management with Finance
    - Year 1 of N252 Management with Marketing
    - Year 1 of N23L Management with Strategy and Organisation
- Year 1 of UECA-L1N2 Undergraduate Economics and Management
- UIBA-N20F Undergraduate International Management
    - Year 1 of N20F International Management
    - Year 1 of N20F International Management
    - Year 1 of N20S International Management (with Accounting)
    - Year 1 of N20T International Management (with Chinese)
    - Year 1 of N20P International Management (with Entrepreneurship)
    - Year 1 of N20M International Management (with Finance)
    - Year 1 of N20U International Management (with French)
    - Year 1 of N20L International Management (with Marketing)

    - Year 1 of N20V International Management (with Spanish)
    - Year 1 of N20W International Management (with Strategy and Organisation)
    - Year 1 of N20N International Management with Digital Business
    - Year 1 of N20E Management (with Foundation Year)
    - Year 1 of N234 Management with Digital Business
- UIBA-N220 Undergraduate International Management (with Foundation Year)
    - Year 2 of N220 International Management (with Foundation Year)
    - Year 2 of N221 International Management with Accounting (with Foundation Year)
    - Year 2 of N226 International Management with Chinese (with Foundation Year)
    - Year 2 of N223 International Management with Digital Business (with Foundation Year)
    - Year 2 of N224 International Management with Entrepreneurship (with Foundation Year)
    - Year 2 of N222 International Management with Finance (with Foundation Year)
    - Year 2 of N227 International Management with French (with Foundation Year)
    - Year 2 of N225 International Management with Marketing (with Foundation Year)
    - Year 2 of N228 International Management with Spanish (with Foundation Year)
    - Year 2 of N229 International Management with Strategy and Organisation (with Foundation Year)
- UIBA-N20E Undergraduate Management (with Foundation Year)
    - Year 2 of N20E Management (with Foundation Year)
    - Year 2 of N23N Management with Accounting (with Foundation Year and Placement Year)
    - Year 2 of N23M Management with Accounting (with Foundation Year)
    - Year 2 of N23E Management with Digital Business (with Foundation Year)
    - Year 2 of N23F Management with Entrepreneurship (with Foundation Year)
    - Year 2 of N23D Management with Finance (with Foundation Year)
    - Year 2 of N252 Management with Marketing
    - Year 2 of N254 Management with Marketing (with Foundation Year)
    - Year 2 of N23P Management with Strategy and Organisation (with Foundation Year)