

IB132-15 Foundations of Finance

26/27

Department

Warwick Business School

Level

Undergraduate Level 1

Module leader

Simona Risteska

Credit value

15

Module duration

10 weeks

Assessment

Multiple

Study location

University of Warwick main campus, Coventry

Description

Introductory description

This is an elective module designed specifically for non-WBS students. 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.

[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, 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

[Reading lists can be found in Talis](#)

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 D7

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

- Answerbook Pink (12 page)
- Students may use a calculator

Assessment group R4

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

- Answerbook Pink (12 page)
- Students may use a calculator

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:

- IB396-15 Financial Statement Analysis and Security Valuation
- IB253-15 Principles of Finance 1
- IB3FP-15 Principles of Finance (for Finalists)

Anti-requisite modules

If you take this module, you cannot also take:

- IB114-15 Financial Management
- IB125-15 Foundations of Financial Management
- IB2D9-15 Finance in Practice

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