

IB266-15 Financial Markets for Business

26/27

Department

Warwick Business School

Level

Undergraduate Level 2

Module leader

Richard White

Credit value

15

Module duration

10 weeks

Assessment

10% coursework, 90% exam

Study location

University of Warwick main campus, Coventry

Description

Introductory description

This second-year module builds on Finance for Business and introduces students to how equity, bond and derivatives markets work in practice and in theory. Students learn how investors trade off risk and return, how diversification reduces risk, and why financial markets provide benchmark prices for non-diversifiable risk. The module develops practical skills in valuing key securities. It provides a rigorous foundation for practice and more advanced undergraduate finance electives.

This is an elective module available for WBS students, and some students taking joint degrees with WBS and another department. 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

- Introduce students to the workings of the equity, bond and derivatives markets.
- Equip students with the skills and understanding to use quantitative tools for pricing stocks, bonds and derivatives.
- Develop in students a critical understanding of the trade-off between risk and return, and of techniques for exploiting that trade-off to maximum effect.
- Make students aware of key empirical tests of the Efficient Markets Hypothesis, and the implications of those empirical findings.
- Provide students with structured opportunities to practise using the key tools and techniques of Financial Markets theory.
- Prepare students for advanced undergraduate and postgraduate studies in Finance.

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.

Investment under Certainty: Inter-temporal consumption, Fisher Separation.

Investor Preferences: Risk aversion, Expected utility.

Optimal Portfolio Selection: Diversification, Risk vs. Return, Capital Market Line.

Capital Asset Pricing Model: Beta, CAPM, Securities Market Line.

Bonds and Interest Rates: Spot rates, forward rates, bond pricing, term structure of interest rates, Pure Expectations and Liquidity Preference Hypotheses.

Financial Derivatives: Arbitrage-free futures pricing, binomial and Black-Scholes option pricing.

Market Efficiency: Efficient Markets Hypothesis, calendar anomalies, speculative bubbles, empirical tests.

Learning outcomes

By the end of the module, students should be able to:

- Describe how equity and bond markets function, and their importance to both individual investors and institutions.
- Explain how these markets price stocks and bonds.
- Explain how risk can be diversified by forming portfolios of assets, and how to construct the optimum portfolio.
- Explain theoretical relationships between risk and return.
- Define different forms of market efficiency, and interpret the results of key tests of the Efficient Markets Hypothesis.
- Describe how derivatives markets function and price securities.
- Reflect critically on the limitations of key theoretical models and the assumptions that

underpin them.

- Analyse case-study information.
- Communicate complex ideas effectively, both verbally and in writing.

Indicative reading list

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

Subject specific skills

Apply discounted cash-flow techniques to value financial securities.

Critically assess major issues and limitations in asset valuation

Interpret empirical evidence.

Price option contracts using the binomial model or the Black-Scholes model.

Transferable skills

Solve structured numerical problems.

Write informed critiques of key issues in valuing risky assets.

Analyse case studies and construct arguments to support a particular solution.

Construct spreadsheets to:

- determine the risk-return characteristics of portfolios of risky assets.
- price stocks, bonds and options.

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	49 hours (33%)
Assessment	72 hours (48%)
Total	150 hours

Private study description

No private study requirements defined for this module.

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
Assessment component			
Participation	10%	7 hours	No
Reassessment component			
Individual Assignment			Yes (extension)
Assessment component			
Centrally-timetabled examination (On-campus)	90%	65 hours	No
			<ul style="list-style-type: none">• Answers provided on Question Paper.• Students may use a calculator

Reassessment component is the same

Feedback on assessment

In-class and on my.wbs

[Past exam papers for IB266](#)

Availability

Pre-requisites

To take this module, you must have passed:

- Any of
 - [IB125-15 Foundations of Financial Management](#)
 - [IB1FB-15 Finance for Business](#)
 - [IB114-15 Financial Management](#)

Post-requisite modules

If you pass this module, you can take:

- IB3M7-15 Alternative and Responsible Investments
- IB3H7-15 Mergers and Acquisitions
- IB2CF-15 Corporate Finance for Business

Anti-requisite modules

If you take this module, you cannot also take:

- IB235-15 Finance 1: Financial Markets
- IB253-15 Principles of Finance 1

Courses

This module is Optional for:

- Year 2 of UIBA-NN02 BSC International Management with Marketing
- Year 2 of UIBA-NN01 BSC Management with Marketing
- Year 2 of UIBA-NN03 BSC Management with Marketing (With Placement Year)
- Year 2 of UECA-L1N3 BSc Economics and Management with Placement Year
- UIBA-N20B BSc in Management
 - Year 2 of N20B Management
 - Year 2 of N20B Management
 - Year 2 of N23K Management with Accounting
 - Year 2 of N234 Management with Digital Business
 - Year 2 of N235 Management with Entrepreneurship
 - Year 2 of N232 Management with Finance
 - Year 2 of N252 Management with Marketing
 - Year 2 of N23L Management with Strategy and Organisation
- Year 2 of UECA-L1N2 Undergraduate Economics and Management
- Year 2 of UGEA-RN21 Undergraduate German and Business Studies
- Year 2 of UIPA-L8N1 Undergraduate Global Sustainable Development and Business
- Year 2 of UIPA-L8N2 Undergraduate Global Sustainable Development and Business Studies (with Intercalated Year)

- UIBA-N20F Undergraduate International Management
 - Year 2 of N20F International Management
 - Year 2 of N20F International Management
 - Year 2 of N20S International Management (with Accounting)
 - Year 2 of N20T International Management (with Chinese)
 - Year 2 of N20P International Management (with Entrepreneurship)
 - Year 2 of N20M International Management (with Finance)
 - Year 2 of N20U International Management (with French)
 - Year 2 of N20L International Management (with Marketing)
 - Year 2 of N20V International Management (with Spanish)
 - Year 2 of N20W International Management (with Strategy and Organisation)
 - Year 2 of N20N International Management with Digital Business
 - Year 2 of N20E Management (with Foundation Year)
 - Year 2 of N234 Management with Digital Business
- UIBA-N220 Undergraduate International Management (with Foundation Year)
 - Year 3 of N220 International Management (with Foundation Year)
 - Year 3 of N221 International Management with Accounting (with Foundation Year)
 - Year 3 of N226 International Management with Chinese (with Foundation Year)
 - Year 3 of N223 International Management with Digital Business (with Foundation Year)
 - Year 3 of N224 International Management with Entrepreneurship (with Foundation Year)
 - Year 3 of N222 International Management with Finance (with Foundation Year)
 - Year 3 of N227 International Management with French (with Foundation Year)
 - Year 3 of N225 International Management with Marketing (with Foundation Year)
 - Year 3 of N228 International Management with Spanish (with Foundation Year)
 - Year 3 of N229 International Management with Strategy and Organisation (with Foundation Year)
- UIBA-N20J Undergraduate Management (with Foundation Year and Placement Year/Undergraduate Partnership Programme)
 - Year 3 of N20J Management (Foundation Year and Placement)
 - Year 3 of N20K Management (Foundation Year and UPP)
 - Year 3 of N23H Management with Digital Business (with Foundation Year and Placement Year)
 - Year 3 of N23J Management with Entrepreneurship (with Foundation Year and Placement Year)
 - Year 3 of N23G Management with Finance (with Foundation Year and Placement Year)
 - Year 3 of N255 Management with Marketing (with Foundation Year and Placement Year)
- UIBA-N20E Undergraduate Management (with Foundation Year)
 - Year 3 of N20E Management (with Foundation Year)
 - Year 3 of N23N Management with Accounting (with Foundation Year and Placement Year)
 - Year 3 of N23M Management with Accounting (with Foundation Year)
 - Year 3 of N23E Management with Digital Business (with Foundation Year)
 - Year 3 of N23F Management with Entrepreneurship (with Foundation Year)

- Year 3 of N23D Management with Finance (with Foundation Year)
- Year 3 of N252 Management with Marketing
- Year 3 of N254 Management with Marketing (with Foundation Year)
- Year 3 of N23P Management with Strategy and Organisation (with Foundation Year)
- UIBA-N20C Undergraduate Management (with Placement Year/Undergraduate Partnership Programme)
 - Year 2 of N20M International Management (with Finance)
 - Year 2 of N20B Management
 - Year 2 of N20D Management (Undergraduate Partnership Programme)
 - Year 2 of N20C Management (with Placement Year)
 - Year 2 of N20Q Management with Accounting (with Placement Year)
 - Year 2 of N236 Management with Digital Business (with Placement Year)
 - Year 2 of N237 Management with Entrepreneurship (with Placement Year)
 - Year 2 of N232 Management with Finance
 - Year 2 of N233 Management with Finance (with Placement Year)
 - Year 2 of N253 Management with Marketing (with Placement Year)
 - Year 2 of N23L Management with Strategy and Organisation
 - Year 2 of N20R Management with Strategy and Organisation (with Placement Year)