Course: FINANCE

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Course Description
The aim of the course is to develop necessary skills and understanding needed to apply appropriate concepts, techniques and approaches for sound decision making in financial management:

a) To enable students to analyse financial situations and offer solutions to financial management problems.
b) To understand and apply theoretical concepts to a range of investment and financing decisions.

Learning Outcomes:

On completing this course students should be able to:

a) How shareholder wealth is created and the role of financial management in this process.

b) Investment and valuation process and techniques.

c) Relationship between risk and return.

d) Investment and financing decision making process in relation to the role of capital markets and their efficiency.

e) How to value different sources of long term finance.

f) Alternative capital structure policies and dividend policies.

g) Financial Derivatives and their use in Corporate Finance.

Teaching approach
There will be a mix of lectures and problem solving classes. To master the concepts, students are expected to solve problems sets with applied material shadowing the conceptual content presented in lectures.

Grading
Final exam: 60%;
Class participation: 10%
Problem sets: 30%

Course Content

1 The Role of Financial Management in Decision Making and First Principles of Finance
Introduction to financial management; main function and role; corporate goals and wealth maximisation; agency theory; models of the firm; contemporary trends in global finance; opportunity cost of capital, time value of money and net present value rule.

2 Market Efficiency and Behavioral Finance
The secondary capital market, its efficiency and consequences for valuation and financing decisions.

3.Valuation
Valuation of Bonds (The time value of money, annuities and perpetuity; the yield curve, bond prices; interest rates; inflation and the effect on rates).
Valuation of equities and Businesses (Shares as discounted stream of dividends, valuation of shares and companies, using Gordon Model and zero growth to capitalise dividends; discounted free cash flows; retention model; different bases for valuation).

4. Portfolio Theory
Risk and return, indifference curves and utility; standard deviation as a measure of risk, efficiency sets, risky and risk free assets; portfolio risk, systemic and unique risk; volatility; risk and diversification.

5 Capital Budgeting and Risk Analysis
Portfolio analysis, capital and security market lines; the capital asset pricing model in decision making; beta values, risk levels and return of assets; financial risk and business risk; WACC and discount rates; restrictions and realism; equity and beta values.

6. Derivatives and Option Pricing
Major types of derivative instruments their characteristics and application. Introduction to options and option pricing. Use of options for hedging and valuation.

7. The Dividend Policy
Relevance and irrelevancy arguments; clientele and signalling effects; practical considerations; homemade dividend policy; contemporary research and current policies.

8. The Capital Structure Decision and Gearing
Alternative approaches to the decision; traditional, M&M (with and without taxes) and real word arguments; gearing levels; optimal capital structure and gearing decisions; debt policy, taxation and the costs of financial distress; the effect on cost of capital; keeping the gearing ration intact.

9. The Growth Decision
Market for corporate control; mergers and acquisitions; reasons and motives; pricing and benefits; the P:E argument, its use in valuation and validation. Leverage Buy-out. The role of Private Equity