|  |
| --- |
|  |
| **Title** | **Principles of Finance** |
|  |
| **Lecturer** | **Lars Hass**  | Tutor | XXX |
|  |
|  | Code | AG910 | Semester | 1 | Weeks | 1 – 11 | Credits | 20 |  |
|  |  |
|  | **Assessment** |  | Examination | 70% |  | Coursework |  |  | Test | 30% |  |
|  |  |
|  | Finance | Compulsory |  | Int. Banking & Fin. | Compulsory |  | Investment & Fin. | Compulsory |  | Int. Accounting & Fin. | Compulsory |  |
|  |

## CLASS AIMS

The class will provide an introduction to financial decision taking and much of the relevant analysis will be developed from the standpoint of corporate finance. It will explain how a company should decide on the investments to be undertaken to meet its objectives, generally assumed to be the maximisation of its value. It will be demonstrated that this will require a rate of return on its investments in excess of the return available in the capital market on equally risky financial investments. As a result it will be necessary to develop an understanding of the capital market risk – return relationship. This will require an appreciation of the nature of risk and how this can be managed by the development of portfolios. Even though the focus of the class will be on corporate finance it will also require an appreciation of how the risk-return tradeoff is determined in the capital market.

## LEARNING OUTCOMES

The class provides opportunities for students to develop and demonstrate knowledge, understanding and skills in the following areas:

**i) Knowledge Based Outcomes:**

On completion of the class students should be able to:

* use compounding and discounting to evaluate financial proposals;
* understand and employ the net present value and internal rate of return as decision criteria to evaluate investment proposals;
* structure and evaluate capital budgeting proposals;
* incorporate the effects of inflation in the analysis of investment and financing proposals;
* determine the cost of borrowing and the evaluation of financing proposals;
* identify the primary determinants of the prices of bonds and shares;
* develop and utilize valuation models
* define and measure risk;
* develop portfolios to manage risk exposure;
* explain capital market theory, the capital asset pricing model and the risk return trade off;
* identify and discuss the implications of the capital asset pricing model for security analysis and corporate financial management;
* understand efficient market theory and its implications for the evaluation of securities and corporate financial management;

**ii) Skills Outcomes:**

 On completion of this class students should be able to demonstrate:

* an ability to structure and take financial decisions ;
* an understanding of the need to link decision criteria to objectives;
* an appreciation of the role of abstract analysis in the development of approaches to practical decision taking;
* an ability to evaluate empirical evidence in the assessment of theory;
* an ability to use spreadsheet analysis in financial decision taking; and
* an awareness of the consequences of our limited knowledge of future outcomes and developments for the design of financial policies.

**TEACHING AND LEARNING**

There are 40 contact hours and the teaching will be on the basis of lectures and workshops (the teaching will in the form of 30 hours of lectures supplemented by 10 one hour workshops that will emphasise the practical application of the analysis developed in the lectures. The lectures will cover all the major issues specified in the syllabus. Time will be allocated in the lectures to discuss the more controversial topics and demanding aspects of the analysis. The workshops will focus on the development of quantitative analysis, building on the material developed in the lectures, and course participants will be required to work through a series of problems prior to each workshop. Workshop attendance is compulsory.

**ASSESSMENT**

A class test will account for 30 percent and the final examination for 70 percent of the assessment. The class test will be in the form of multiple choice questions. The test will provide a measure of students’ understanding of the theory and analysis, and the ability to apply the analysis in practice. The final examination will be made up of a series of compulsory short quantitative and conceptual questions, and an essay section to assess the understanding of the theoretical basis of the analysis. The final examination will take place in the December diet of examinations and will last two hours. Any reassessment will be via a re-sit exam of the same format as the main exam.

**READING**

Recommended textbook:

**Jonathan Berk and Peter de Marzo. “Corporate Finance”. 5th Edition Pearson, 2019**

Most of the good introductory texts in finance focus on the requirements of MBA classes in finance. This is the case for the text by Berk and de Marzo, but this is a little more theoretical and advanced than most other texts, making it more suitable for a specialist finance class. (It will also be used in the Advanced Corporate Finance and Applications and Topics in Corporate Finance classes in the second semester. The text can also be used to cover some aspects of the analysis developed in the optional class in Security Analysis.)

Further Reading

**R Brealey, S Myers and F Allan. “Principles of Corporate Finance”.** 13th Ed., McGraw Hill, 2020.

This was a highly innovative text when first published, and has exercised a major influence on the nature and coverage of nearly all subsequent text books. It is well written and focuses on the most interesting and important theoretical issues. Despite now being in its 12th edition it covers contemporary issues very well.

## Additional Reading:

## T E Copeland, J F Weston and K Shastri. “Financial Theory and Corporate Policy”. Addison-Wesley, 4th Ed., 2005.

An advanced, but still accessible, text covering the same range of topics as the other textbooks, but is more theoretical and rigorous. It also provides a good discussion of the relevant empirical tests and evidence, but unfortunately has not been recently updated.

**Web Resources**

To be identified in detail in class but will include among other things additional reading and links to the coverage in the media of current financial developments. Some research articles will also be recommended in class.

**Useful Websites:**

[www.ft.com](http://www.ft.com)

## LECTURE PROGRAMME

|  |  |
| --- | --- |
| **Topic** | **Subject** |
| **1** | Time value of money - the role of interest rates in decision taking |
| **2** | Investment criteria and capital budgeting – theory and practice |
| **3** | Valuation of bonds and shares  |
| **4** | An introduction to risk and uncertainty  |
| **5** | Portfolio theory and the management of risk  |
| **6** | Capital market theory |
| **7** | Capital asset pricing model and beta and the determination of the cost of capital |
| **8** | Efficient market theory and its implications |
| **9** | Forms of financing – debt and equity |