

Course information 2023-24

AC3059 Financial management

General information

MODULE LEVEL: 6

CREDIT: 30

NOTIONAL STUDY TIME: 300 hours

Summary

This course introduces students to the concepts and theories of corporate finance that underlie the techniques which are offered as aids for the understanding, evaluation and resolution of financial managers' problems.

Conditions

Prerequisite: If taken as part of a BSc degree, the following course must be attempted before you can register on this course.

- AC1025 Principles of accounting

Exclusion: You may not register for this course in the same year as:

- FN2190 Asset pricing and financial markets

Aims and objectives

This course aims to cover the basic building blocks of financial management that are of primary concern to corporate managers, and all the considerations needed to make financial decisions both inside and outside firms.

This course also builds on the concept of net present value and addresses capital budgeting aspects of investment decisions. Time value of money is then applied to value financial assets, before extensively considering the relationship between risk and return. This course also introduces the theory and practice of financing and dividend decisions, cash and working capital management and risk management. Business valuation and mergers and acquisitions will also be discussed.

Learning outcomes

At the end of the course and having completed the essential reading and activities students should be able to:

- describe how different financial markets function
- estimate the value of different financial instruments (including stocks and bonds)
- make capital budgeting decisions in the world with and without tax, under both certainty and uncertainty, and capital rationing

Please consult the current EMFSS Programme Regulations for further information on the availability of a course, where it can be placed on your programme's structure, and other important details.

- apply the capital assets pricing model in project appraisals, constructing portfolio with desired risk, and creating risk-free arbitrage opportunity
- evaluate the pros and cons of using equity and debt for financing long-term projects
- describe how leasing works for firms
- estimate cost of capitals
- determine the value creation from mergers and acquisitions
- apply working capital techniques in managing trade receivables, inventory, and trade payables
- determine how forwards, options, and money market hedge can be used to reduce uncertainty of foreign currency receipts and payments

Employability outcomes

Below are the three most relevant skill outcomes for students undertaking this course which can be conveyed to future prospective employers:

1. Decision making
2. Complex problem-solving
3. Communication

Essential reading

For full details, please refer to the reading list.

Brealey, R.A., S.C. Myers and F. Allen *Principles of Corporate Finance*. (New York: McGraw- Hill, 2023) fourteenth global edition, [ISBN 9781264080946].

Assessment

This course is assessed by a three-hour and fifteen-minute closed-book written examination.

Syllabus

The subject guide examines the key theoretical and practical issues relating to financial management. The topics to be covered in this subject guide are organised into the following 20 chapters:

Chapter 1: Financial management function and environment

This chapter outlines the fundamental concepts in financial management and deals with the problems of shareholders' wealth maximisation and agency conflicts.

Chapter 2: Investment appraisals 1

In this chapter we begin with a revision of investment appraisal techniques. The main focus of this chapter is to examine the advantages of using the discounted cash flow technique and its application in basic investment scenarios.

Chapter 3: Investment appraisals 2

This chapter follows on from Chapter 2 to explore the application of the discounted cash flow technique in more complex scenarios: capital rationing, price changes and inflation, and tax effect.

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Chapter 4: Investment appraisals 3

This chapter illustrates the application of the discounted cash flow technique in further complex scenarios: replacement decision, project deferment and sensitivity analysis.

Chapter 5: Risk and return

We formally examine the concept and measurement of risk and return in this chapter. We also look at the necessary conditions for risk diversification, Portfolio Theory and the Two Fund Separation Theorem. Asset Pricing Models and discussed and practical considerations in estimating beta will be covered. Empirical evidence for and against the Asset Pricing Models will also be illustrated.

Chapter 6: Portfolio theory and capital asset pricing model

This chapter introduces more formally the Portfolio Theory and discusses the derivation of the Capital Assets Pricing Model.

Chapter 7: Practical consideration of the capital assets pricing model and alternative asset pricing model

Following on from Chapter 6 we examine the techniques for estimating betas and their conceptual and practical considerations. We also introduce an Alternative Pricing Model based on the Arbitrage Pricing Model.

Chapter 8: Capital market efficiency

This chapter discusses the concepts and implications of market efficiency and the mechanism of equity and debt issuance.

Chapter 9: Sources of finance – Equity

In this chapter we focus on how companies raise funds from the stock and bond markets, and discuss the advantages and disadvantages of this financing method.

Chapter 10: Sources of finance – Debt

In this chapter we focus on how companies raise funds from the bond markets, and discuss the advantages and disadvantages of this financing method.

Chapter 11: Capital structure 1

This chapter introduces the arguments of Modigliani and Miller on capital structure, and discuss the implication of the Trade-off Theory.

Chapter 12: Capital structure 2

This chapter critically reviews the existing leading theories of capital structure. Specifically, signalling effect, agency cost of equity and debt, and the Pecking Order Theory will be examined. We will also evaluate the practical considerations of capital structure decisions made by corporate managers.

Chapter 13: Dividend policy

This chapter aims to explore how the amount of dividend paid by corporations would affect their market values. The tax, signalling and agency effects of dividend will be discussed.

Chapter 14: Cost of capital and capital investments

In this chapter we discuss how the cost of capital can be adjusted when firms are financed with a mixture of debt and equity.

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Chapter 15: Valuation of business

We introduce the valuation of equity, debt, convertibles and warrants in this chapter.

Chapter 16: Mergers

This chapter focuses on the theory and motives of mergers and acquisitions. The determination of merger value and the defensive tactics against merger threats will also be covered. The empirical evidence of using financial ratios to predict mergers and acquisitions will be discussed.

Chapter 17: Financial planning

This chapter focuses on the importance of careful financial planning and examines and evaluates the approaches to and methods of financial planning.

Chapter 18: Working capital management

The importance of managing working capital will be discussed in this chapter.

Chapter 19: Risk management – concepts and instruments for risk hedging

This chapter provides an introduction to risk management, including: the concepts of risk management and the use of derivatives in hedging.

Chapter 20: Risk management – applications

This chapter discusses the techniques commonly used in risk hedging.

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