

## **BFM205 BUSINESS FINANCE**

### **Academic Year 2013/14**

Number of Aston Credits: 15

Number of ECTS Credits: 7.5

### **Staff Member Responsible for the Module:**

Dr. Carmel de Nahlik, Finance & Accounting Group  
Aston Business School Building, Room 402, Extension 3045  
Email: [c.denahlik@aston.ac.uk](mailto:c.denahlik@aston.ac.uk)  
Availability: See WASS

Or contact the Finance & Accounting Group Administrator:  
Ms Rosaleen Shirley, Room ABS404, Extension 3238

### **Pre requisite for the Module:**

None. This module assumes a basic familiarity with financial knowledge and how a business works and is designed to build on those skills. It does not address advanced techniques in the areas covered. During the module, students will be expected to develop their knowledge of basic statistics and material is available in the module web to provide support.

### **Module Objectives and Learning Outcomes:**

This module is offered across a number of programmes:

MSc Accounting and Finance;  
MSc Business and Management;  
MSc Finance and Financial Regulation;  
MSc International Business;  
MSc Islamic Finance and Banking;  
MSc Strategy and international Business.

**The curriculum maps for each programme offer a slightly different form of the programme objectives, but the broad intent is similar and the following map shows how**



Curriculum objective	Module Objective	Sessions	Assessment method
A1 Demonstrate knowledge and understanding of the theories, principles and underlying concepts and practice of management and an understanding of business models and processes in a national and international context.	Be able to synthesise and communicate complex information about financial decisions and evaluations in context in clear language, demonstrating more than repetition of course materials.	All	Coursework.  Part A of the exam.
B1 Demonstrate competence in critical reasoning and decision-making.  B2 demonstrate a high level of intellectual and analytical skills and through intensive post graduate study have acquired and developed understanding of business and management subjects.  B5 Demonstrate an understanding of the strengths and weaknesses of evidence based approaches to management.	Be able to construct an argument to support a financial decision by reference to theory and current examples in the news.    Be able to acknowledge the limitations of current financial theory.	1, 6, 8.	Part A of the Exam.
C1 Apply principles, models and theories in the working environment.  C2 Use key accounting and financial tools to aide decision making inside organizations.	Be able to calculate and select appropriate discount rates, valuation techniques and leverage ratios including the use of the WACC.	3, 4, 6, 7, 8	Part B of the exam.  Part of the MCQ in Part C.
D4 Communication and team working skills  D5: Competency in understanding relevant statistical analyses and financial reports	Be able to work together to produce a single output and capitalise on each group member's strengths.  Be able to complete simple bond and equity valuations; select appropriate metrics and methods to evaluate projects using DCF, IRR Payback and rank projects using a Profitability Index.  Be able to complete a simple risk return calculation.	All.  2, 3, 4, 5	Group discussion in class  Part B of the exam.  Part of the MCQ in Part C.

## Module Content:

- Week 1:** Introduction, Financial Markets and Agency Theory
- Week 2:** Valuing shares and securities
- Week 3:** Investment appraisal (1): investment appraisal methods
- Week 4:** Investment appraisal (2): identifying relevant cash flows
- Week 5:** Risk and return
- Week 6:** The cost of capital
- Week 7:** Corporate financing decisions
- Week 8:** Debt and dividend policy decisions
- Week 9:** Revision
- Week 10:** Examination

This module focuses on the two key aspects of corporate financial management: how companies decide where to invest their money and how they raise the money to pay for these investments. The module is organized as follows:

**Part 1 (week 1):** provides an introduction to financial management, the role of the financial manager and the financial environment in which companies operate. The concept of shareholder wealth maximization is explored as well as mechanisms that are used in order to align managers' interests with those of shareholders.

**Part 2 (weeks 2 – 4):** is concerned with valuation. First, the concept of 'present value' is introduced and applied to the valuation of shares and bonds. Then, we examine the application of 'present value' and other appraisal methods used to evaluate corporate investment decisions.

**Part 3 (weeks 5 – 6):** is concerned with the cost of capital. First, we examine the relationship between risk and return and the impact of diversification on risk reduction. We then explore the meaning of the cost of capital concept and how it is measured.

**Part 4 (weeks 7 – 8):** is concerned with financing decisions. First, we review the alternative sources of funding available to a company, and considerations relevant to a company's choice of what funding source is most appropriate. We then examine two key financial decisions: how much debt should the company use in its capital structure, and how much of the company's profits should be paid to shareholders as dividends.

After completing the module, students will be able to explain the key principles and challenges of financial management decisions, and will be able to apply key mathematical

techniques to the valuation of shares and bonds, the evaluation of investment decisions, and to compute the cost of capital. Students will also be able to discuss at a good introductory level the characteristics, influencing factors and the advantages and disadvantages of different forms of financing, discuss the linkages between the firm and the financial markets, and the links between corporate and financial strategies.

### **Corporate Connections:**

The module places great emphasis on real-world corporate issues and practices. Carmel will draw on her work as a banker and consultant to natural resource companies, banks, contractors and other public and private companies, as well as a venture capitalist.

### **International Dimensions:**

Reference will be made to international aspects of investment and financing decisions including a discussion of the stock exchanges around the globe and the value of listing on more than one exchange.

### **Contribution of Research:**

Reference will be made to the major research findings that have informed the development of corporate financial management, including research into stock market efficiency, the Capital Asset Pricing Model, debt and dividend policy decisions and more generally evidence of how companies make financial management decisions in practice. These theories are now under scrutiny and students will be expected to have a basic knowledge of the limitations of these approaches in practical finance.

### **Ethics, Responsibility & Sustainability:**

Reference will be made to professional conduct as a form of ethical behaviour especially in the first lecture when considering the role of managers as agents for shareholders and investors and with specific reference to recent events in the news, e.g. the LIBOR fixing scandal. Students will be expected to read and engage with material in the module web to enable an informed discussion.

### **Method of Teaching:**

Teaching will comprise a mixture of lectures, group discussions, exercises and cases. The module web contains copies of presentation slides, supplementary readings, other useful study materials, exercises and past examination papers. You may be provided with additional handouts and exercises during the module as well as additional references to useful articles and readings that are available in the library. A series of Calculation Clinics will be held to develop confidence in key areas.

### Method of Assessment and Feedback:

This module will be assessed by a 2 hour closed book examination with three sections, all of which must be completed. Part A offers a choice of one from two essay question (40%), Part B offers a choice of one from two calculation questions (40%) and Part C consists of twenty compulsory Multiple Choice Questions worth one mark each (20%). This assessment represents 100% of the module marks.

On line testing for self assessment of progress will be available in the module web using the card provided with the set book.

A trial MCQ will run in the first half of the course and be marked in class. This is a formative exercise for students to check progress.

Feedback is available on request either during office hours, via email or on Blackboard. Weekly feedback to the group is given at the start of each lecture.

### Learning Hours:

Pre-reading	26
Contact Lecturing Hours	27
Contact clinic hours	8
Within course reading	50
Weekly exercises	24
Exam preparation time	15
<b>Total</b>	<b>150</b>

**The following readings are subject to change. Students should not therefore purchase textbooks prior to commencing their course. If students wish to undertake background reading before starting the course, many of the chapters/readings are available in electronic form via on-line library catalogues and other resources.**

### Pre-reading:

Many students taking this module have not studied how a business works or finance and/or accounting before. In order to embark on this course successfully, students will need to read the relevant chapters from the set book AHEAD of each lecture.

So ahead of week 1, please read Hillier, Clacker, Ross et al, "Fundamentals of Corporate Finance" (European Edition) Chapters 1, 2, 4, 5 or Berk, De Marzo, Harford, "Fundamentals of Corporate Finance" 2<sup>nd</sup> Global Ed, Chapters 1, 3 and 4.

You are also expected to complete the pre-reading from the week by week list of journal articles and watch the clip from the Apprentice in the module web.

All students should be reading a high quality daily business news paper such as the Financial Times and the Economist to be up to date with current news. These are available from the Library.

### **Essential Reading:**

Hillier D, Clacher I, Ross S, Westerfield R and Jordan B. (2011). 'Fundamentals of Corporate Finance' (European Edition) McGraw Hill

### **Alternative Recommended Reading:**

Berk, J; DeMarzo, P; & Harford, J. 'Fundamentals of Corporate Finance'. (2<sup>nd</sup> Global Edition). Pearson

### **Online Resources:**

Overheads and other key journal articles will be made available on Blackboard-System

### **Recommended Journals:**

Students should be reading the Financial Times and the Economist regularly as a minimum.

### **Additional Readings:**

Are contained in the module web either as electronic material or via links to the eLibrary and are updated immediately before the start of the course to maintain currency.