FIN2004 Finance

Lecturer: Dr Er Jwee Ping

Session : Semester 1 2010/2011

Course Objectives
This course helps students to understand the key concepts and tools in Finance. It provides a broad overview of the financial environment under which the firm operates. It equips the students with the conceptual and analytical skills necessary to make sound financial decisions for the firm.

Prerequisite
ACC1002/ACC1002X Financial Accounting

Preferred Modules
It is preferred that students have taken the equivalent of BZ1008 Statistics.

Basic Text

Reference Text

Assessment Methods
Final Examination - 60%
Mid-Term - 25%
Quizzes (set by your tutor) - 10%
Class Participation - 5%

Midterm
The midterm is scheduled to be held on the Friday, 1 October 2010, 6.30 – 8.00 pm. The open-book exam comprises of 50 MCQs and covers Topics 1 to 6. The final exam is also an open-book exam.
Course Outline

1. Introduction
   • Forms of business organisation
   • Goal of financial management
   • Agency problem between shareholders and managers
   • The firm and its sources of funds

2. Financial statement analysis
   • Uses and limitations of financial statements
   • Ratio analysis
   • Liquidity ratios
   • Asset management ratios
   • Debt management ratios
   • Profitability ratios
   • Market value ratios
   • Du-Pont identity
   • Uses and limitations of ratio analysis

3. Time value of money
   • Time lines
   • Future value and present value
   • Annuity and Perpetuity
   • Uneven cashflows
   • Semi-annual and other compounding periods
   • Comparing interest rates

4. Concepts of Risk and Return I
   • Stand-alone risk
   • Expected return and variability of return of a single asset
   • Portfolio risk
   • Diversifiable risk vs. market risk
   • Principle of diversification

5. Concepts of Risk and Return II
   • The concept of Beta
   • Borrowing and lending at the risk-free rate
   • Capital market line and security market line
   • Capital asset pricing model
   • Underpriced and overpriced assets
   • Cost of capital

6. Bonds
   • Characteristics of bonds
   • Bond valuation
   • Bond yields
   • Price-yield relationship
   • Changes in bond values over time
   • Bond risks – interest rate and reinvestment rate
• Sensitivity of bond price to changes in interest rate
• Different types of bonds

7. Common Stock
• Characteristics of stocks
• Common stock valuation
• Dividend discount model – one period and multi-period
• Constant dividend growth model
• Nonconstant growth rate
• Bonus/rights issue

8. Techniques of Capital Budgeting I
• Capital budgeting process
• Net present value (NPV)
• Internal rate of return (IRR)
• Multiple IRRs & MIRR
• Payback period
• Discounted payback period
• Comparisons of capital budgeting methods

9. Techniques of Capital Budgeting II
• Project analysis
• Incremental cash flows
• Sunk costs, opportunity costs & externalities
• Cash flow estimation – single project
• Cash flow estimation – replacement project

10. Short-term Financial Planning
• Cash conversion cycle
• Alternative current asset investment policies
• Cash budget
• Cash and marketable securities
• Inventory management
• Credit policy, terms and standards
• Monitoring accounts receivable

11. Long-term Financial Planning
• Strategic planning
• Sales forecasting
• The AFN Equation
• Forecasted Financial Statements
• Growth and financial requirements

12. Options
• Features of Options
• Calls
• Puts
• Option Payoffs
• Valuation of Options
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