# 

# KARATINA UNIVERSITY

# FINANCIAL MANAGEMENT CREDIT HOURS: 3

## COURSE PURPOSE

By taking the course, the learner will cover the theory of Financial management at an advanced level to develop the capability to make, appraise and justify financial management decisions, develop theoretical arguments, read and critique research publications.

## LEARNING OUTCOMES

By the end of the course, the student should be able to:

* + 1. Define financial management and expound on its scope.
    2. Explain the sources and point out the resolution mechanisms for agency conflicts.
    3. Compute the risk and return of a project.
    4. Evaluate a business using financial ratios and other business analysis tools.
    5. Evaluate capital investments and make advanced capital investment decisions.
    6. Appraise empirical dividend policies adopted by corporations in Kenya and in other countries.
    7. Compare capital structure decisions of corporations.
    8. Justify the choice of capital structure by corporations.

## COURSE CONTENT

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| **TOPIC** | ***REFERENCE****[[1]](#footnote-1)* |
| Introduction; definitions, the framework of financial management, scope of financial management, the role of a financial manager in an organization. | TEXTBOOK: Brealey−Meyers, 2003 |
| Economic overview of corporate institutions | TEXTBOOK: Tirole, 2006  Shleifer, A. V. (1997). A Survey of Corporate Governance. *The Journal of Finance* *, 52* (2), 737-783.  Mitchell, L. (2010). The Trouble With Boards.In S. P. Kieff (ed), *Perspectives on Corporate Governance.* pp 17-61. Cambridge: Cambridge University Press. |
| Financial accounting information based measures versus market based measures (cash flow, balance sheet, income statement, market value analysis, share prices). | TEXTBOOK: Brealey−Meyers, 2003 |
| **Financial mathematics- overview** | TEXTBOOK: Brealey−Meyers, 2003 |
| **The Market for Corporate Control** | TBP |
| **Valuation** | TEXTBOOK: Brealey−Meyers, 2003 |
| **Capital budgeting;**  RECAP: traditional appraisal methods (payback, ARR), discounted cash flow methods (NPV, IRR, PI).  Leasing. Make vs Buy Decisions | Lecture notes |
| **Sources and cost of funds.** | TEXTBOOK: Brealey−Meyers, 2003 |
| **Financial distress and Capital structure decisions** | Myers, S. (1984). The Capital Structure Puzzle. *The Journal of Finance* *, 39* (3), 575-592. |
| **Budgeting** | Fabozzi- Peterson (2003) |
| **Ratio analysis** | Fabozzi- Peterson (2003) |
| **Introduction to risk and return** | Fabozzi- Peterson (2003) |

## TEACHING METHODOLOGY

In order to achieve the learning objectives the following learning and teaching methods will be used:

* Lectures.
* Case studies in financial management.
* Class discussions and presentations of group research projects and class assignments.

## INSTRUCTIONAL MATERIALS AND EQUIPMENT

Computers/internet services, journals, newspapers, chalk/pens and white boards.

## EVALUATION

A minimum of two continous assessment tests totaling 15%, on top of classroom assignments amounting to 15%. The end of semester exam will be out of 70% of the course evaluation.

Continous Asssessment Tests 20%

Classroom assignments 20%

End of semester examinations 60%

TOTAL 100%

## RECOMENDED TEXTS

Ehrhardt, Michael C., Brigham, Eugene F. (2011). *Corporate Finance:A Focused Approach, Fourth Edition*. South-Western Cengage Learning, Mason,USA.

Pike,R., Neale, B. (2006). *Corporate Finance and Investment: Decisions & Strategies Fifth Edition*. Pearson Education Limited. Harlow.

Tirole, J. (2006). *The Theory of Corporate Finance*. Princeton University Press. New Jersey.

Brealey−Meyers (2003). *Principles of Corporate Finance, 7th Edition*, The McGraw−Hill Companies.

Fabozzi- Peterson (2003). *Financial management and analysis, 2nd edition*. John Wiley & Sons, Inc. Hoboken, New Jersey.

## RECOMMENDED TEXTBOOKS/ JOURNALS FOR FURTHER READING

Ruud A. I. (2007). [*Corporate Governance and Financial management: A European Perspective*](http://www.betterworldbooks.com/9780415405317-id-9780415405317.aspx)*.* Routledge, London.

Instefjord, Norvald (1999).[The Market for Corporate Control and the Agency Paradigm. *European Finance Review*, 3(1).](http://www.abebooks.com/servlet/BookDetailsPL?bi=9056133762&searchurl=kn%3DEmpirical%2Bcorporate%2Bfinance%26sts%3Dt%26x%3D48%26y%3D5)

Mishkin, Frederic and Stanley G. Eakins, *Financial Markets & Institutions, 4th edition*, Addison Wesley, 2003.

**The list of references is not final. Other relevant references will be availed as the class progresses.**

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1. *(Apart from the lists of references at the bottom of this course outline, we will also consult the following journal articles in the following topics)These journal articles are very essential to your understanding of theoritical and empirical underpinnings of the topics. Ensure you read all the articles indicated before class discussions take place. The articles form part of the lecture notes.* [↑](#footnote-ref-1)