**BCOM 335: FINANCIAL MANAGEMENT** *(Facilitator: John K. Karuitha, Cell phone: 0724466061).*

**Course Description**

Financial Management studies corporate finance and capital markets, emphasizing the financial aspects of managerial decisions. It touches on all areas of finance, including the valuation of real and financial assets, risk management and financial derivatives, the trade-off between risk and expected return, corporate financing and dividend policy. The course draws heavily on empirical research to help guide managerial decisions.

**Objectives:**

By the end of the course the students should be able to:

* Value primitive (ordinary and preference shares), and derivative securities.
* Apply the risk-return concepts to capital markets.
* Determine the cost of capital of a firm (MCC/WACC), and identify factors that affect cost of capital.
* Apply financial planning tools in a corporate setting.

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| **Part 1 - Introduction** | | |
| 1 | 1 | Introduction to Financial management (Definition, scope, agency conflict and its solutions) |  |
|  | 2 | Principles of Valuation: Time value of money (Discounting/ Compounding), annuities and perpetuities. |  |
| **Part 2 – Valuation of Assets and Investments** | | |
| 2 | 3 | Concept of Value, Valuation of ordinary and preference shares, and bonds. |  |
|  | 4 | Firm Valuation. |  |
| 1. **Part 3 - Applications of risk and return concepts in capital assets.** | | |
| 3 | 5 | Introduction to Risk and Return. |  |
|  | 6 | CAPM and The arbitrage pricing model. |  |
| **Part 4 - Financing Policy** | | |
| 4 | 7 | Capital Budgeting: WACC/ MCC Calculation, capital budgeting under conditions of risk, inflation. |  |
|  | 8 | Cost of Capital: Breaks in the MCC curve. |  |
|  | 9 | 1. Financial and operating leverage. |  |
|  | 10 | 1. Strategy, Financial planning and control. |  |
| **Part 5- Derivative securities** | | |  |
|  | 9 | Derivative securities: Derivatives, Option pricing models. |  |

**References**

* Reilly - Brown, *Investment Analysis and Portfolio Management, 7th edition*, Addison Wesley, 2000.
* Mishkin, Frederic S.The *economics of money, banking, and financial markets* / Frederic S. Mishkin.—7th ed. p. cm. — (The Addison-Wesley series in economics)
* Bodie−Kane−Marcus: *Investments, Fifth Edition*, The McGraw−Hill Companies, 2001
* Brealey−Meyers: *Principles of Corporate Finance, Seventh Edition*, The McGraw−Hill Companies, 2003.
* Fabozzi- Peterson, *Financial management and analysis, 2nd edition*, John Wiley & Sons, Inc., Hoboken, New Jersey (2003).
* Mishkin, Frederic and Stanley G. Eakins, *Financial Markets & Institutions, 4th edition*, Addison Wesley, 2003.
* Other texts in Financial Economics, Investment management and financial management.

**CAT 1** will cover topic 1 through 3. This will be after the three topics are covered.

**CAT 2** will cover the remainder of the course outline. The date will be agreed upon in class.