

BS0808 - FINANCE AND FINANCIAL MANAGEMENT

COURSE TUTOR

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COURSE AIMS

To provide a theoretical framework for analysing key financial markets and show how they interact with the key decisions of firms.

ASSESSMENT

One coursework assignment (30% of total marks) and an examination paper (70% of total marks) at the end of the course.

SYLLABUS

MARKETS AND DEALERS

FINANCIAL ASSETS

RAISING FUNDS (Equity, Debt and Mezzanine finance, OTC markets)

MARKETS AND DEALERS (bid-ask spreads, market makers)

VALUATION OF COMPANIES AND INVESTMENT PROJECTS

Future Value / Compounding (**Revision**)

Discounted Present Value DPV / Discounted Cash Flow DCF (**Revision**)

Internal Rate of Return (**Revision**)

Investment (Project) Appraisal (**Revision**)

Valuation of The Firm And The Firm's Equity (Incl. Continuing Value).

The cost of Equity Finance. Weighted Average Cost of Capital (WACC)

Valuation In Practice: EBITD, Depreciaton, FCF etc

Economic Profit, Economic Value Added, Adjusted Present Value

COST OF CAPITAL AND CAPITAL STRUCTURE

Preliminary definitions

Capital Structure Question: What is it?

CAPITAL STRUCTURE – THEORIES

Traditional View

Modigliani-Miller (MM) Propositions I and II- with and without taxes

Financial Distress

Practical Issues

MONEY AND BOND MARKETS

MONEY MARKETS

YIELD INSTRUMENT (Bankers Acceptances, Certificates of Deposit)

DISCOUNT INSTRUMENTS (Treasury Bills)

PRICING (Day Count Conventions)

GOVERNMENT BOND MARKETS

PRICES YIELDS AND RETURN

Pure Discount / Zero Coupon Bonds / Spot yields

Plain Vanilla, Coupon Paying Bonds. Flat Yield, Yield to Maturity

Pricing Coupon Paying Bonds Using Spot rates (Coupon Stripping)
CORPORATE BONDS
Plain Vanilla, FRNs, Foreign, Eurobonds, Convertible and Callable
Pricing Corporate Bonds
DURATION: PRICE-YIELD RELATIONSHIP

PORTFOLIO THEORY AND THE CAPM

ASSET ALLOCATION

Measuring risk and return (mean, variance and covariance)
Mean-variance efficiency: Efficient Frontier
Capital Market Line CML and the Optimal (Market Portfolio)
Mean-Variance Optimisation in Practice
Performance measure (Reward to risk ratio: Sharpe Index)

EQUITY INVESTMENT

EQUILIBRIUM RETURNS: REWARDS FOR RISK

The Capital Asset Pricing model (CAPM) and the Security Market Line (SML)
The “beta” (β) of a security

FORWARD RATES AND FUTURES MARKETS

DETERMINATION OF FORWARD RATES (OF INTEREST)

Forward rates and future inflation

FUTURES MARKETS: AN OVERVIEW

TRADING ON FUTURES MARKETS:

Delivery versus closing out, margin requirements

PRICING (Cash And Carry Arbitrage, Cost Of Carry)

HEDGING USING FUTURES (stock index futures, interest rate futures)

OPTIONS

OPTIONS MARKETS: AN OVERVIEW. CALL AND PUT OPTIONS, PAYOFFS

ORGANIZATION OF OPTIONS MARKETS: Expiry Dates, Strike/Exercise Price, Trading, Newspaper Quotes.

PRICING - The Black Scholes Formula

SPECULATION. HEDGING/INSURANCE (delta hedging)

READING

Most of the course material will be provided in hand-outs/overhead slides. The recommended text is “Fundamentals of Corporate Finance” by Ross, Westfield and Jordan, 2006. Most of the material covered can also be found in many of the standard basic texts available.

Recommended Texts

Ross, Westfield and Jordan (2006), *Fundamentals of Corporate Finance*, seventh edition, McGraw-Hill

Other Reading

Cuthbertson K. and Nitzsche, D. (2001) *Investments: Spot and Derivative Markets*, J. Wiley, April 2001

Arnold, G., *Corporate Financial Management*, Pearson/ FT/Pitman Publishing, 1998

Ross, S., Westerfield, R. and Jaffe, J. “*Corporate Finance*”, McGraw-Hill 7th edition

Brealey, R. and Myers, S. “*Principles of Corporate Finance*”, 6th edition, McGraw-Hill, New York

John Hull, “*Fundamentals of Futures and Options Markets*” 6th edition, Prentice Hall

Valdez, S. (1997, 3rd edition) An Introduction to Global Financial Markets, Macmillan Business (£18) - excellent introduction to markets and institutions – very good for interview background material.

Atrill, P. (2003) Financial Management for Non-Specialists, 3rd edition, Prentice Hall Financial Times.