



SYLLABUS

FINANCIAL MANAGEMENT

INTRODUCTION

Financial Management is a subject, which investigates in detail the core areas of the Finance function in organizations i.e. financing decisions, investing decisions and distributions to owners and other providers of finance. A major aim of the course is to improve the quality of financial decision-making in private companies, government ministries and departments and non-governmental organizations.

OBJECTIVES

After completing this course, students should be able to:

- Explain the financial goals of business entities and other organizations
- Identify and explain the 3 key areas of the management of finance
- Explain the management of single investments and combinations of investments (portfolios)
- Explain the theoretical and practical aspects of capital structure and dividend policy
- Explain the international aspects of the management of finance

DETAILED SYLLABUS/ COURSE OUTLINE

SECTION 1 Overview of Corporate Financial Goals

- The role of financial decisions
- The goals of business entities
- Corporate social responsibility
- The agency problem
 - components of agency costs
 - dealing with the agency problem

SECTION 2 The Investment Environment

Financial markets

- Types of financial markets
- Characteristics of money market instruments
- Types of risk associated with money market instruments
- Types of money market instruments

Capital markets

- Types of capital market instruments
- Methods of raising equity capital
- Underwriting

Stock exchange quotations

- Advantages of having shares quoted on the stock exchange
- Disadvantages of having shares quoted on the stock exchange

SECTION 3 Stock Market Analysis

The fundamental valuation model

- The market valuation process
- The creation of excess returns
- The efficient markets hypothesis
- Tests of market efficiency

Specify methods of stock market analysis

- Technical analysis
- Fundamental analysis

Stock exchange practice

- Listing requirements
- Measuring performance on the stock exchange

SECTION 4 The Valuation of Securities

- The time value of money
- Future value and present value calculations
- Use of present value, future value, and annuity tables
- Applications of future values and present values

SECTION 5. Bond Analysis

- Basic terms related to bond valuation
- Bond characteristics
- Types of bonds and their characteristics

Convertibility of bonds

- Callable bonds
- Puttable bonds

Bond valuation

- Bond pricing theorems
- Bond duration and modified duration
- Yield to maturity
- Relationships among coupon rate, yield to maturity and bond value
- Bond convexity

Bond immunization

- Practical considerations with regard to bond immunization
- The term structure of interest rates
- Different types of yield curves
- Expectations theory
- Liquidity preference theory
- Preferred habitat theory

- Market segmentation theory

SECTION 6 Analysis of Risk and Return

- Types of risks
- Types of investors
- The relationship between risk and return
- Systematic and unsystematic risk
- Measurement of return
 - Expected return
 - Probability and expected return
- Measurement of risk
 - Variance and standard deviation
 - Mean-variance rule
- Coefficient of variation
- The capital asset pricing model
 - Calculation of required return and beta
 - Significance of beta
 - Assumptions of the model

SECTION 7 Portfolio Analysis

- Rationale for diversification
- The 2-asset portfolio
 - Portfolio return
 - Portfolio correlation
 - Portfolio risk
 - Portfolio co-variance
- The multi-asset portfolio
 - Combination of risky and risk-free assets
- Portfolio theory and the capital asset pricing model
 - The arbitrage pricing model

SECTION 8 Capital Investment Appraisal

- Classification of investment projects
- Major steps in capital investment appraisal
- Relevant cash flows in investment appraisal
- Non-discounted cash flow methods and related decision rules
 - Return on investment
 - Simple payback

Discounted cash flow methods and related decision rules

- Net present value
- Internal rate of return (IRR)
- Profitability index (PI)

SECTION 9 Capital Investment Appraisal-Advanced Aspects

Assumptions of the basic model

Conflicts between IRR and NPV and their solution

Reinvestment rate assumptions under IRR and NPV

Taxation in investment appraisal

Replacement of non-current assets

- Mutually exclusive projects with different lives
- Optimal replacement cycles
- The lowest common multiple method

Modification's of basic DCF methods

Effects of inflation on investment appraisal

SECTION 10 Capital Structure Theory and Company Value

Assumptions of capital structure theory

Approaches to capital structure theory

- The net operating profit approach
- The net profit approach
- The traditional approach
- The Modigliani-Miller approach
 - without taxes
 - with corporate tax
 - with corporate and personal taxes

Financial break-even analysis

- Operating leverage
- Financial leverage
- Total leverage

SECTION 11 The Cost of Capital and Company Value

The target capital structure

Calculation of the cost capital

- Weighted average cost of capital
- Weighted marginal cost of capital

The dividend valuation model

Capital asset pricing model and the cost of capital

The valuation of individual securities

- Valuation of preference shares

- Valuation of equity
- The valuation of companies
- Net assets value method
 - Super profits method

SECTION 12 Dividend Decisions and Company Value

- Issues in dividend policy
- The irrelevance theory of dividends
- The Miller and Modigliani view on dividends
 - The arbitrage process
- Additional models on dividends
 - Walter's model
 - Gordon's model
- Practical factors which influence the dividends decision
- Other forms of dividends

SECTION 13 Working Capital Management

- The matching principle
- Liquidity
- Investing in accounts receivable
- Inventory management
- Management of cash and marketable securities
- Management of current liabilities
- The cost of financing

SECTION 14 The Options Approach to Financial Management

- Call and put options
- Characteristics of call and put prices
- Relationship between call and put prices
- Debt and equity as options
- Warrants and convertibles

SECTION 15 Mergers and Acquisitions

- Factors influencing activity on the takeover market
- Methods of effecting takeovers
- Strategies to prevent takeovers
 - Proactive measures
 - Reactive measures
- The economic rationale for mergers

Evaluating prospective mergers
Anti-monopoly legislation

SECTION 16 Shareholder Value Creation, Corporate Financial Policy and Strategy

The role of financial management in corporate strategy
The interface of financial policy and strategic management
The sustainable growth approach to the achievement of financial goals
Shareholder value creation
Shareholder value analysis

SECTION 17 International Financial Management

The international financial environment
The foreign investment decision
The cost of capital for foreign investments
Sources of funds for foreign subsidiaries
Measuring foreign investment returns
Determining the composition of the optimal investment portfolio
Country and regional risk analysis
Foreign currency risk management
Types of foreign exchange risk
Methods of reducing transaction exposure.