



PERSONA CIÈNCIA EMPRESA
UNIVERSITAT RAMON LLULL

INTRODUCTION TO FINANCE

Duration: 40 hours (6 ECTS)

Required material: the reference book and a financial calculator

OBJECTIVES:

This course serves as an introduction to the world of finance. We will emphasize the underlying principles and theories while at the same time presenting the context in which they operate.

The financial environment is bound to change; however, the basic principles remain the same. Understanding them will prepare the student to operate in the financial environment of tomorrow, whatever the future brings.

General Skills:

After successfully completing this course, the student will be able to:

1. Value assets, including fixed income, equity and investment projects
2. Understand how firms use capital markets to obtain funding
3. Calculate the value today of the cash flows in the future
4. Evaluate how the prices are determined for the standard financial claims (stocks or bonds) issued by firms
5. Comprehend the basic relationship between risk and expected return
6. Recognize which projects firms should pursue
7. Understand what determines the mix of financial claims issued by the firm
8. Comprehend the basics of “exotic” financial products such as options, swaps and futures

Specific skills:

- Analysis and synthesis

TOPICS:

1. INTRODUCTION TO VALUATION: THE TIME VALUE OF MONEY

- 1.1 Future value and compounding
- 1.2 Present value and discounting
- 1.3 More on present value and future values

2. DISCOUNTED CASH FLOW VALUATION

- 2.1 Future and present values of multiple cash flows
- 2.2 Valuing level cash flows: annuities and perpetuities
- 2.3 Comparing rates: the effect of compounding periods
- 2.4 Loan types and loan amortization

3. INTEREST RATES AND BOND VALUATION

- 3.1 Bonds and bond valuation
- 3.2 More on bonds features
- 3.3 Bond ratings
- 3.4 Some different types of bonds
- 3.5 Bond markets
- 3.6 Inflation and interest rates
- 3.7 Determinants of bond yields

4. EQUITY MARKETS AND STOCK VALUATION

- 4.1 Common stock valuation
- 4.2 Some features on common and preferred stock
- 4.3 The stock markets

5. NET PRESENT VALUE AND OTHER INVESTMENT CRITERIA

- 5.1 Net present value
- 5.2 The payback rule
- 5.3 The average accounting return
- 5.4 The internal rate of return
- 5.5 The modified internal rate of return
- 5.6 The profitability index
- 5.7 The practice of capital budgeting

6. MAKING CAPITAL INVESTMENT DECISIONS

- 6.1 Project cash flows: a first look
- 6.2 Incremental cash flows
- 6.3 Pro forma financial statements and project cash flows
- 6.4 More on project cash flow
- 6.5 Evaluating NPV estimates
- 6.6 Scenario and other what-if analyses
- 6.7 Additional considerations in capital budgeting

METHODOLOGY:

The methodology applied to this course is based on:

- High and proactive participation of the student to discuss each topic covered in the syllabus.
- Team working since students will be divided in groups of 4 or 5 people to cover a topic while producing a pdf file in order to run a presentation.

EVALUATION: (percentages express the weight on the final mark)

1. Midterm exam: 25 %
2. Final exam (cumulative): 30 %
3. Quizzes: 15 %
4. Presentation (in groups): 20 %
5. Proactive participation: 10 %

Attendance **is compulsory and no more than 4 absences** are allowed during the course.

The student is responsible for reading the book in advance of the class discussion while doing the problems assigned at the end of each chapter on his/her own. Late homework won't be accepted.

There are no extra credit assignments, no do-overs, no drop the lowest grade and no mercy passes. I do never grade on a curve.

A financial calculator is required. It must have the ability to do time value of money (TVM) problems. You can easily find tutorials on line. Graphic or scientific calculators are not accepted and there's no need to say that electronic devices with Internet or phone capabilities cannot be used (tablet, smartphone, laptop or iwatch).

There will be one midterm exam and one cumulative final. Exams are a mixture of problems and questions in a multiple-choice format.

REMARKS:

The student is responsible for showing up on time for the exams. The student cannot make-up any exams after the scheduled dates unless for a valid reason such as illness (written doctor proof required). There is a 72-hour requirement on notice.

I encourage the student to use the office hours to solve doubts related to this course.

The student needs a minimum mark of 40 out of 100 in the final exam to average it with the other marks. The student will pass the course whenever the final average is 50 out of 100 or above.

Here you have the equivalence:

0 – 49,9: F

50 – 54,9: C

55 – 59,9: B-

60 – 69,9: B

70 – 79,9: B+

80 - 100: A

Any attempt to pass any examination by improper means is a most serious offense and will be treated with extreme prejudice. The aiding of a student in any kind of dishonesty is likewise held to be a great breach of discipline.

In case of doubt, please read carefully the rules of the Universitat Ramon Llull and the IQS School of Management.

BIBLIOGRAPHY:

Ross, S.A, Westerfield R.W, & Jordan, B.D (2014).
Essentials of Corporate Finance, 8th edition. McGraw-Hill Irwin.

TENTATIVE SCHEDULE:

SESSION	TOPIC	ACTIVITY
1	1.1 Future value and compounding 1.2 Present value and discounting	
2	1.3 More on present value and future values	Exercises Topic 1
3	2.1 Future and present values of multiple cash flows 2.2 Valuing level cash flows: annuities and perpetuities	
4	2.3 Comparing rates: the effect of compounding periods 2.4 Loan types and loan amortization	Exercises Topic 2
5	3.1 Bonds and bond valuation 3.2 More on bond features	Quiz 1
6	3.3 Bond ratings 3.4 Some different types of bonds	
7	3.5 Bond markets 3.6 Inflation and interest rates 3.7 Determinants of bond yields	
8		Exercises Topic 3
9	4.1 Common stock valuation	
10	4.2 Some features on common and preferred stock	
11	4.3 The stock markets	Quiz 2
12		Exercises Topic 4
13		MIDTERM EXAM
14		CORRECTION MIDTERM EXAM
15	5.1 Net present value 5.2 The payback rule	
16	5.3 The average accounting return 5.4 The internal rate of return	
17	5.5 The modified internal rate of return 5.6 The profitability Index 5.7 The practice of capital budgeting	
18		Exercises Topic 5
19	6.1 Project cash flows: a first look 6.2 Incremental cash flows 6.3 Pro forma financial statements and project cash flows	
20	6.4 More on project cash flow 6.5 Evaluating NPV estimates	
21	6.6 Scenario and other what-if analyses 6.7 Additional considerations in capital budgeting	Quiz 3
22		Exercises Topic 6
23	GUEST LECTURER	Growth vs Value Funds
24		PRESENTATIONS
25		PRESENTATIONS
26		PRESENTATIONS
27		FINAL EXAM