



APPLIES TO ACADEMIC YEAR 2003/2004

## BØK 2212 Finance I

### Program

Master of Business and Economics Program

### Responsible for the course

Dag Michalsen

### Department

Financial Economics

### Term

According to study plan

### ECTS Credits

6

### Objective

The objective of this course is to examine how managers of corporations make decisions regarding their investments in physical assets. This is called capital budgeting. This decision making process requires a clear understanding of how to construct expected cash flows for an investment, and how to adjust them for complications that occur through the existence of, for example, taxes and inflation. It is then necessary to understand the various rules that can be employed in order to decide whether the expected cash flows will yield an adequate return. An integral part of the capital budgeting process is the assumption that managers know the rate of return that their investors demand from them. In reality this has to be estimated. Therefore, the second part of this course deals with the issue of measuring the required rate of return of investors. Various methods are used, from models that apply simple multiples of earnings to more complex models that explicitly adjust the required rate of return for the risks that the investors face.

### Prerequisites

The first year and a half of the siviløkonom program or equivalent.

### Compulsory literature

Ross, Stephen A., Randolph W. Westerfield and Jeffrey F. Jaffe. 2002. *Corporate finance*. 6th ed, rev. Boston, MA.: Irwin/McGraw-Hill, chapters 1-12.

### Recommended literature

*Eksamensoppgavesamling med løsningsforlag i finans*. Sandvika: Handelshøyskolen BI. Siste utgave.

### Course outline

- Introducing Corporate Finance
- Estimating Cash Flows From Accounting Statements
- The Net Present Value (NPV) rule
- Alternative Investment Evaluation Rules
- Advanced Capital Budgeting Using NPV
- Sensitivity Analysis and Capital Budgeting
- Valuing Bonds and Stocks
- Capital Markets: A first look at return and risk
- Measuring Risk and Return: Portfolio Theory and the Capital Asset Pricing Model
- Risk, Cost of Capital and Capital Budgeting
- Term Structure of Interest Rates

### Computer-based tools

Students are recommended to use computer-based tools, such as spreadsheets and statistical software. Such tools, however, are not allowed at the examination.

### Course structure

The course is based on 36 lecture hours, primarily presentations and discussions of the readings assigned to the topics listed above. Students are expected to have read the material before each class meeting. In addition to regular lecturing, there will be 6 hours of problemsolving.

**Evaluation**

A three-hour multiple-choice exam concludes the course.

**Evaluation code(s)**

BØK 22121

**Aids at the examination**

Interest tables and financial calculator are permitted during the exam.

**Makeup exam**

At the next ordinary exam.