



APPLIES TO ACADEMIC YEAR 2010/2011

## **BØK 1121 Finance**

### **Programme**

Bachelor of Science in Business (1. year)

### **Responsible for the course**

### **Department**

### **Term**

According to study plan

### **ECTS Credits**

7,5

### **Language of instruction**

Norwegian

### **Introduction**

This introductory course focuses mainly on the investment part of the subject finance. The purpose is to give students the necessary knowledge about the terms and methods that is used to make investment decisions. It has to be mentioned that even if the main focus is on financial investments (stocks and bonds), the methodology is also applicable to real investments.

### **Learning outcome**

#### **Required knowledge:**

In completing the course students should:

- Understand the investment analysis place in finance.
- Understand why we focus on cash flows and not earnings.
- Understand what the actual size of a cash flow means.
- Understand how and when to use the different rules of discounting and compounding.
- Understand how to interpret the cost of capital/discount rate.
- Understand the meaning of, and difference between, the different decision criteria behind an investment. Here: Net Present Value (NPV), Internal Rate of Return (IRR), Payback etc.
- Understand the meaning of the term structure of interest rates and forward rates.
- Understand the concepts of total risk, relevant risk and irrelevant risk.
- Understand the content in portfolio theory and its importance in what we call diversification benefits.
- Understand Beta and how to be able to interpret the size of this.
- Understand the Capital Asset Pricing Model (CAPM) how it is derived.
- Understand the meaning of Weighted Average Cost of Capital (WACC) and when to use it.

#### **Acquired skills:**

After completing the course, students should be able to:

- Estimate cash flows, both according to the flow to equity method and total capital method.
- To use the different discounting rules both with the use of a financial calculator and interest tables.
- To use the different decision criteria both on stocks and bonds.
- Calculate forward rates.
- To use portfolio theory for different investment alternatives.
- Calculate Beta values.
- Derive the Capital Asset Pricing Model (CAPM).
- To use the Capital Asset Pricing Model (CAPM).
- Calculate the Weighted Average Cost of Capital (WACC).

### **Reflection**

After taking the course, the students should be able to ask critical questions and reflect on the crucial assumptions behind the theories thought. They should also be able to reflect on the practical relevance of the mentioned theories.

### **Prerequisites**

Basic bachelor courses in Mathematics and Statistics.

### Compulsory reading

#### Books:

Berk, Jonathan and Peter DeMarzo. 2010. Corporate finance. 2nd ed. Boston : Prentice Hall. 1-13

### Recommended reading

#### Other:

Pål Korsvold og Dag Michalsen. 1997. Eksamensoppgaver med løsningsforslag i finans. Oslo: Handelshøyskolen BI. 1-7  
Rentetabeller. Oslo: Handelshøyskolen BI

### Course outline

- Introduction
- Cash flow
- Compounding and discounting rules/Mathematical finance
- Capital Budgeting
- The term structure of interest rates
- Capital Asset Pricing Model (CAPM)
- Weighted Average Cost of Capital (WACC)

### Computer-based tools

None, but use of EXCEL could be useful in some of the exercises.

### Learning process and workload

The course includes 12 lectures, each in 3 hours. There will also be two three hours where we look at formerly examinations. Total of hours are 42 hours.

To stimulate a good learning environment a two-way communication with the students are preferable. It is the student's responsibility to participate in the lectures with questions, comments and discussion. The lecturer has therefore the opportunity to ask questions to each student.

#### Recommended use of time:

Activity	Hours
Lectures and plenary tutorials where exercises will be explained	42
Preparation for lectures (approximately 1,5 hour before each lecture)	18
Go through the lectures (approximately 1, 5 hours after each lectures)	18
Self-study and colloquium	60
Exercises	62
<b>Recommended use of hours</b>	<b>200</b>

### Use of hours

### Examination

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

### Examination code(s)

BØK 11211 – Multiple choice, accounts 100% of the grade in BØK 1121 Finance, 7.5

### Examination support materials

Interest tables and BI-approved exam calculator and allowed. TEXAS INSTRUMENTS BA II Plus™

Examination support materials at written examinations are specified under exam information in our web-based Student Handbook. Please note the use of calculator and dictionary.  
<http://www.bi.edu/studenthandbook/examaids>

### Re-sit examination

A re-sit is held in connection with the next scheduled exam in the course

## **Additional information**