



APPLIES TO ACADEMIC YEAR 2011/2012

BØK 1121 Finance I

Programme

Bachelor of Science in Business (1. year)

Responsible for the course

Kjell Jørgensen

Department

Department of Financial Economics

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 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

Acquired knowledge:

On completion of the course students should be able to:

- Understand the importance of investment analysis in finance.
- Understand why there is a focus on cash flows and not on 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 the basis for interpreting the size of this.
- Understand the Capital Asset Pricing Model (CAPM) and how it is derived.
- Understand the meaning of Weighted Average Cost of Capital (WACC) and when to use it.

Acquired skills

On completion of 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 related to both stocks and bonds.
- Calculate forward rates.
- Use portfolio theory for different investment alternatives.
- Calculate Beta values.
- Derive the Capital Asset Pricing Model (CAPM).
- 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 taught. 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. 2011. Corporate finance. 2nd ed. Pearson. 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**Learning process and workload**

The course includes 12 lectures, each of 3 hours. There will also be two three-hour sessions where former examination papers are reviewed. The total number of hours is 42.

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

Recommended use of time:

Activity	Hours
Lectures and plenary tutorials where exercises will be explained	42
Preparation for lectures (approximately 1,5 hours before each lecture)	18
Review of lectures (approximately 1, 5 hours after each lecture)	18
Self-study and colloquia	60
Exercises	62
Recommended use of hours	200

Use of hours**Examination**

A three-hour individual, multiple-choice examination concludes the course.

Examination code(s)

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

Examination support materials

Interest tables and a BI-approved examination calculator are allowed. TEXAS INSTRUMENTS BA II Plus™

Examination support materials at written examinations are specified under information about examinations 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