

# FIN 211: Basic Finance

*Credit Hours: 3*  
*Lecture Hours: 48*

## Course Objectives :

The objective of the course is to provide the students with an understanding of the fundamental concepts and principles of business finance and impart skills for applying those concepts and principles in real business situations. The course also creates solid foundation for specialization in finance area.

## Course Description:

This course provides students opportunity to understand fundamentals of business finance and their application in financial decisions in business. The course begins with the basics of business finance – introduction to business finance and the environment in which financial decisions are undertaken. Then it creates foundation for financial analysis of business opportunities by offering/ covering financial statements analysis and concepts related to time value of money and risk and return. Finally, it also covers valuation of important securities – bonds and common stocks, and the cost of capital.

## Learning Outcome

By the end of this course, students should be able to:

- Understand fundamental nature of business finance;
- Understand the financial environment and its implication in financial decisions;
- Interpret the financial statements and carry out financial analysis of a corporation;
- Understand the concept of risk and return, and measure them for individual assets and portfolio of assets;
- Understand the concept of time value of money, gain the skill of computation, and apply them in solving business problems involving time value of money;
- Compute yields on securities and value them;
- Conceptualize component cost, overall cost and marginal cost of capital, and gain the skill on the calculation of these costs; and

## Course Details

### Unit 1: Introduction

**LH4**

- Nature of Business Finance, Corporate Investment and Financing Decision,
- The Role of Financial Manager,
- Goal of the Corporation,
- Agency Relationship and Corporate Governance.

### Unit 2: The Financial Environment: Markets, Institutions, Interest Rates and Taxes

**LH 6**

- Financial Markets: Concept and Types;
- Financial Institutions: Concept, Role in Funds Transfer, and Types;
- Interest Rates: Level of Interest Rate, Determinants of Market Interest Rates, Interest Rates and Business Decisions;
- Taxes: Corporate Tax, Marginal Tax and Average Tax.

### Unit 3: Financial Statements and Their Analysis

**LH10**

- Financial Statements: Balance Sheet, Income Statement and Cash Flows Statement;
- Modifying Financial Data for Managerial Decisions:
- Net Cash Flows,
- Operating Assets and Operating Capital,
- Net Operating Profit,
- Free Cash Flows,

- Market Value Added and Economic Value Added;
- Financial Analysis: Types of Ratios, Du-Pont Identity, Use and Limitation of Ratio Analysis,
- Common-Size Financial Statements.

#### **Unit 4: Time Value of Money**

**LH6**

- Time Lines,
- Future Value and Compounding:
- Single Period and Multiple Period,
- Compound Interest; Present Value and Discounting:
- Single Period and Multiple Period;
- Present Value Versus Future Value;
- Determining the Discount Rate;
- Finding the Number of Periods;
- Future Value and Present Values of Multiple Cash Flows;
- Present Value for Annuity Cash Flows,
- Annuity Payments,
- Finding the Number of Payments,
- Finding the Rate,
- Future Value for Annuity;
- Perpetuities:
- Present Value of Perpetuity,
- The Compounding Rates:
- The Effect of Compounding Periods,
- Effective Annual Rate and Annual Percentage Rate;
- Amortization of Loan.

#### **Unit 5: Risk and Return**

**LH6**

- Return: various concepts and their measurement;
- Risk: Concepts and Measurement;
- Portfolio Risk and Return: Concept of Portfolio,
- Portfolio Risk and Portfolio Return.

#### **Unit 6: Bond and Stock Valuation**

**LH10**

- Concept, Features,
- Bond Valuation: Perpetual Bond, Zero Coupon Bond, Coupon Bond with a Finite Maturity,
- Bond Valuation with Semi-annual Interest, Discount and Premium Bond; and
- Bond Yields: Rate of Return, Current Yield and Capital Gain Yield, Yield to Maturity, Yield to Call.
- Features of Common Stock;
- Cash Flows from Common Stock;
- Stock Valuation for Definite Holding Period; Valuation of Stock for Indefinite Holding Period:
- zero growth, constant growth and non constant growth; and
- Features of Preferred Stock, Valuation of Preferred Stock

#### **Unit 7: Cost of Capital**

**LH6**

- Concept of Cost of Capital;
- the Cost of Equity:
- the Dividend Growth Model Approach,
- The SML Approach;
- the Cost of Debt and Preferred Stock;
- the Weighted Average Cost of Capital:
- the Capital Structure Weight; and

- Marginal Cost of Capital.

### **Textbooks**

1. Brigham, E. F., & Ehrhardt, M. C. (2008). *Financial management: Theory and practice* (12<sup>th</sup>ed). Delhi: Clengage Learning.
2. Ross, S. A., Westerfield, R. W., & Jordan, B. D. (2011). *Essentials of corporate finance* (7<sup>th</sup>ed). New York: McGraw-Hill Irwin.

### **References**

1. Brealey, R.A., Myers S.C., Alen, F., & Mohanty, P. (2012). *Principles of corporate finance* (10<sup>th</sup>ed). New Delhi: McGraw-Hill Education (India).
2. Van Horne, J. C., & Wachowicz, J. R. (2009). *Fundamentals of Financial Management*, (13<sup>th</sup>ed). New Delhi: PHI Learning.