KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI

BS (BBA) – VI		
Course Title	:	**INTROCUTION TO BUSINESS FINANCE**
Course Number	:	**BA(BS) – 512**
Credit Hours	:	**03**

Course Contents

1. Overview: (Financial Management)

1.1. Explain the main functions of the financial system;
1.2. Describe classifications of assets and markets;
1.3. Describe the major types of securities, currencies, contracts, commodities, and real assets that Trade in organized markets, including their distinguishing characteristics and major subtypes;
1.4. Describe types of financial intermediaries and services that they provide;
1.5. Compare positions an investor can take in an asset;
1.6. Define primary and secondary markets and explain how secondary markets support primary markets;
1.7. Describe how securities, contracts, and currencies are traded in quote–driven, order–driven, and brokered markets;
1.8. Describe characteristics of a well–functioning financial system;
1.9. Describe objectives of market regulation

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What is Market?
Primary Capital Market
Secondary Financial Markets
Classification of Secondary Equity market
Detailed Analysis of Exchange markets

2. Time Value of Money

2.1. Interpret interest rates as required rates of return, discount rates, or opportunity costs;
2.2. Explain an interest rate as the sum of a real risk–free rate, and premiums that
2.3. Compensate investors for bearing distinct types of risk;
2.4. Calculate and interpret the effective annual rate, given the stated annual interest rate and the frequency of compounding;
2.5. Solve time value of money problems for different frequencies of compounding;

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2.6. Calculate and interpret the future value (FV) and present value (PV) of a single sum of money, an ordinary annuity, an annuity due, a perpetuity (PV only), and a series of unequal cash flows;
2.7. Demonstrate the use of a time line in modeling and solving time value of money problems.

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Interest rates interpretation
Future value if single cash flow
Future value of series of cash flow
Present value of single cash flow
Present value of series of cash flow
Solving for the rate number of periods, or size of annuity payments

3. Financial Statement Analysis

3.1. Describe tools and techniques used in financial analysis, including their uses and limitations;
3.2. Classify, calculate, and interpret activity, liquidity, solvency, profitability, and valuation ratios;
3.3. Describe relationships among ratios and evaluate a company using ratio analysis;
3.4. Demonstrate the application of DuPont analysis of return on equity, and calculate and interpret effects of changes in its components;
3.5. Calculate and interpret ratios used in equity analysis and credit analysis;
3.6. Explain the requirements for segment reporting, and calculate and interpret segment ratios;
3.7. Describe how ratio analysis and other techniques can be used to model and forecast earnings.

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The Financial analysis process
Analysis tools and techniques
Common ratios used in financial analysis
DuPont Analysis
Proforma Analysis
Equity analysis
Credit analysis
Business and Geographical segments
Model building and forecasting

4. Capital Budgeting: Decision Criteria

4.1. Describe the capital budgeting process and distinguish among the various categories of capital projects;
4.2. Describe the basic principles of capital budgeting;
4.3. Explain how the evaluation and selection of capital projects is affected by mutually exclusive projects, project sequencing, and capital rationing;
4.4. Calculate and interpret net present value (NPV), internal rate of return (IRR), payback period, discounted payback period, and profitability index (pi) of a single capital project;

4.5. Explain the NPV profitle, compare the NPV and IRR methods when evaluating independent and mutually exclusive projects, and describe the problems associated with each of the evaluation methods;
4.6. Describe expected relations among an investment's NPV, company value, and share price.

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The capital budgeting process
Basic principles of capital budgeting
Investment and decision criteria
NPV, IRR, Payback, Discounted Payback, Average Accounting rate of Return, Profitability Index, NPV Profitle, Ranking Conflict, Multiple IRRs

5. Capital Budgeting Extensions

5.1. Calculate the yearly cash flows of expansion and replacement capital projects, and evaluate how the choice of depreciation method affects those cash flows;
5.2. Explain how inflation affects capital budgeting analysis;
5.3. Evaluate capital projects and determine the optimal capital project in situations of:
5.4. Mutually exclusive projects with unequal lives, using either the least common multiple of lives approach or the equivalent annual annuity approach, and
5.5. Capital rationing;
5.6. Explain how sensitivity analysis, scenario analysis, and Monte Carlo simulation can be used to assess the stand–alone risk of a capital project;
5.7. Explain and calculate the discount rate, based on market risk methods, to use in valuing a capital project;
5.8. Describe types of real options and evaluate a capital project using real options;
5.9. Describe common capital budgeting pitfalls;
5.10. Calculate and interpret accounting income and economic income in the context of capital budgeting;
5.11. Distinguish among the economic profit, residual income, and claims valuation models for capital budgeting and evaluate a capital project using each.

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Cash Flow Projections
More on Cash Flow Projections
Project Analysis and Evaluation
Other Income measures and Valuation models

6. Discounted Cash Flow Applications

6.1. Calculate and interpret the net present value (NPV) and the internal rate of return (IRR) of an investment;
6.2. Contrast the NPV rule to the IRR rule, and identify problems associated with the IRR rule;
6.3. Calculate and interpret a holding period return (total return);
6.4. Calculate and compare the money–weighted and time–weighted rates of return of a portfolio and evaluate the performance of portfolios based on these measures;

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6.5. Calculate and interpret the bank discount yield, holding period yield, effective annual yield, and money market yield for US Treasury bills and other money market instruments;
6.6. Convert among holding period yields, money market yields, effective annual yields, and bond equivalent yields.

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Net present Value and Internal Rate of Return
Portfolio return measurement
Money market yields
Risk and Return
Define Return
Define risk
Measuring expected return
Measuring risk (stand alone, standard deviation, co–variance)
Risk attitudes

Recommended Books:

1. Houston & Brigham. (2004). *Financial Management, Theory and Practice.* Harcourt.
2. Rao, R. K. S. (1989).*Fundamentals of Financial Management.* Maxwell McMillan.
3. Brealey, R. A. & Marcus, A. J. (2007). *Fundamentals of Corporate Finance.* McGraw–Hill.
4. Besley, S. & Brigham, E. F. (2007). *Essential of Managerial Finance.* Thomson.
5. CFA Curriculum

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