

BFM116 FINANCE: THEORY AND PRACTICE

Academic Year 2012/13

| Number of Aston Credits: | 15 |
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| Number of ECTS Credits: | 7.5 |

Staff Member Responsible for the Module:

Prof Jim Steeley, Finance, Accounting & Law Group Aston Business School Building, Room 412, Extension 3248 Email: <u>i.m.steeley@aston.ac.uk</u> Availability: See 'office hours' Or contact the Finance, Accounting & Law Group Administrator: Mrs Rosaleen Shirley, Room ABS 404, Extension: 3238

Pre-requisites for the Module:

This module is available on only MSc Finance and Investments

Mode of Attendance:

On Campus

Module Objectives and Learning Outcomes:

This module provides a rigorous introduction to the theory of finance. On completion of the module, students should be able to:

- Characterise financial decisions under certainty and uncertainty
- > Characterise the expected returns and risk of individual and portfolios of securities
- Explain and apply the principles of portfolio selection
- Describe the main asset pricing models and understand their strengths and weaknesses
- Understand how to test asset pricing models and the existing body of empirical evidence in this regard
- Understand the implications of the theory and evidence regarding market efficiency

.These objectives contribute in whole, or in part, to the following programme level outcomes (see the curriculum map in the PG Handbook): A1-A3, B1-B3, C1-C3, D2, D3 and D5.



Module Content:

- **Topic 1:** Intertemporal financial decision making under certainty Axioms of choice and utility functions, agents' optimisation problem.
- **Topic 2:** Intertemporal financial decision making under uncertainty State dependent payoffs and returns, portfolio returns, arbitrage portfolios and risk-free portfolios, pure securities, state prices and market completeness, asset pricing, state price densities, covariance relations and risk neutral pricing, incomplete markets, fundamental theorem of finance
- **Topic 3:** Portfolio selection and pricing The mean and variance model, implications for asset pricing (CAPM and alternative models).
- Topic 4:Asset pricing testsMean variance efficiency tests and cross section tests
- **Topic 5:** Performance Measurement Performance measurement using a security market line, the Roll critique, further theoretical results

Corporate Connections:

The module will draw on the experience of investment professionals wherever possible, although the focus of this model is gaining an understanding of theory.

International Dimensions:

In the presence of global financial markets, the study of finance and investments naturally transcends national boundaries. Finance theory is applicable regardless of setting, and this module will draw on a large body of international evidence.

Contribution of Research:

The required reading will connect students to the research literature.

Ethics, Responsibility & Sustainability:

These topics are not addressed in this module.





Method of Teaching:

Classroom-based teaching and learning will comprise a sequence of lectures (3 hours per week) that will be the primary mode of delivery of the knowledge required to achieve the learning outcomes. In addition to formal class contact hours, students are expected to follow the suggested learning hours guide, in allocating time for private study.

Method of Assessment and Feedback:

This module will be assessed by a 2 hour final exam in week 20. Feedback on progress may be obtained through class-room interaction and office hour appointments. All module level objectives will be tested through the final exam.

Learning Hours:

| 50 |
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| 50 |
| 70 |
| 30 |
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The following essential and recommended readings are subject to change. Students should not therefore purchase textbooks prior to commencing their course. If students wish to undertake background reading before starting the course, many of the chapters/readings are available in electronic form via on-line library catalogues and other resources.

Essential Reading:

Bodie, Z, A. Kane, A Marcus, Investments, McGraw Hill, 8th edition, 2009.

Copeland, T.E., J.F. Weston and K. Shastri, Financial Theory and Corporate Policy, Addison Wesley, 2005.

