



## Bristol Business School

**Module handbook:** 2005/06

**Module Code:** UPEN45-15-M

**Module Title:** Finance I

**School of:** Economics

**Module Leader:** Peter Howells

Tutor	Dr Peter Howells
Tutor's Office Hour	Tues: 11.30-12.30; Thurs: 10.30-11.30
Tutor's phone number	83684
Tutor's email address	peter.howells@uwe.ac.uk

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## 1. Introduction

This course examines the basis of financial activity in the requirements of a modern economy, and looks at how well financial systems meets those needs. In doing this, its main aim is to put financial activity into a context. However, to make an informed judgement, some knowledge of the basic techniques of financial analysis is required and these are also taught in this module. The main emphasis on analytical techniques comes in the module called Finance II).

The course is taught by me, Peter Howells, until recently Professor of Economics at the University of East London, and author of a number of books and journal articles on financial and monetary economics.

The best way to contact me is via email:

[Peter.Howells@uwe.ac.uk](mailto:Peter.Howells@uwe.ac.uk)

As a general rule, emails are forwarded from this address automatically, even at weekends and vacations, so students should get a fairly prompt response.

The internal phone no. is 83684.

Office hours are Tuesday 11.30 and Thursday 10.30 (at least for the first term) and the office is 4C18C.

## 2. Learning Outcomes

At the end of this module, students should be able:

- to distinguish key functions of a financial system
- to understand the comparative merits of intermediation by institutions and by markets
- to understand the basics of asset pricing
- to appreciate the main sources and consequences of financial system failure
- to discuss problems arising from globalisation for the regulation of financial activity

## 3. Organisation of the Module

### 3.1. Teaching and Learning Methods

The basic framework is one of lecture and seminar (one hour of each per week). As a general rule, the lecture session will be one of exposition and the seminar session will offer opportunity for discussion and elaboration of material derived from the preceding lecture combined with additional reading.

However, there will be departures from this framework depending upon the part of the syllabus being covered. Some lecture slots will be interactive, giving a chance for debate on topical issues raised throughout the module while some seminars will involve exercises in calculation, interpretation and analysis of current events as reported in the financial media and the use of statistical and other web resources.

### 3.2. Student responsibilities

#### Lectures

You should be aware that lectures are designed to provide a framework for discussion and analysis. Lectures provide insights into issues and debates, as well as highlighting the importance of people, places and events. In other words, the lectures set out the context in which a more detailed examination is undertaken in the seminars. Your responsibility

therefore is to attend these lectures on a regular basis. **Failure to do so may seriously affect your ability to keep abreast of the course and hence impact on your final grade.**

#### Seminars

A seminar is designed to enable students to investigate an issue or theme in greater detail. The onus is on you to keep up to date with the reading on a weekly basis. **Seminars work better if everyone has done some preparatory reading, have thought about interesting questions to ask and come along prepared to discuss the theme in question.** Do not leave it to others to do the work. As you can see the reading lists for seminars are extensive. The purpose is two fold: to give an idea of what is available in our library; and to introduce various opinions expressed by a number of authors. This does not mean that just because a book is not listed here that it may not be relevant to the course. **We would encourage you from the outset to explore the wide variety of material contained in our library, which can be equally useful when preparing for a seminar or writing an essay.** Equally important, you are strongly encouraged to use journal articles, which publish the latest research. Articles are extremely useful because they concentrate on a specific issue or debate. They get to the heart of a debate and therefore provide insight into complex issues. So get into the habit of using the journals for all facets of your work.

#### Library

You are expected to use the full potential of the UWE library system. As a multi-campus institution, resources are scattered. Books and periodicals may be housed on only one site. So be prepared, especially when preparing essays, to use the inter-site loan system or (better still) travel to the other sites to obtain relevant material. Since this is a postgraduate course you will be expected to be aware of and make use of recent publications in the journals. It is impossible for any university these days to stock all the relevant journals but UWE has a good stock and it also subscribes to many more journals in electronic form. This means that you can download and print your own copy of papers. You should get acquainted with the procedure at the earliest opportunity.

Finally, **remember that this is a postgraduate course.** You are expected to be able to cover a lot of ground at a high level in a short space of time. Notice that the course is divided into modules which are just one semester long. This means that they last for approximately 12 weeks. This in turn makes it very difficult to recover lost time. You must be prepared to start the course promptly and to stay with it week by week.

### **3.3. Staff responsibilities**

Staff will endeavour to produce useful, interesting and thought provoking lectures, which are well informed by up-to-date secondary literature and, where appropriate, by visual aids. In seminars tutors will help to generate and sustain discussion while at the same time recognising the students' responsibility to stimulate debate. They will also try their best to return work, with detailed feedback, within three working weeks of the submission date. Staff will be available to discuss your work on a one-to-one basis at specified times. In addition, they will make time to discuss issues raised by the group in the regular weekly seminar slot.

### **3.4. Facilities and Resources**

The main resources for this module are books, articles, newspapers and websites. These are listed in detail the final section, 10, below. The numbers in square brackets, [ ], in the 'Reading' below identify these resources. The codes are explained in section 10. As a general rule, all lecture notes and any documents which are handed out will be made available on a website. Details will be provided later.

## 4. Module Programme and lecture details

We have tried to organise the course around one main textbook. This is:

Z Bodie and R C Merton, *Finance* (Prentice-Hall, 2000).

In this module, we shall use the first three parts (= 9 chapters). This amounts to about a half of the book. Parts 4 and 5, however, will be used in the Finance II module. The book is absolutely central to the course. Most of the lectures will follow it closely; homework and seminar preparation in many cases uses problems/questions from the book and some of the exam questions will be modelled on these problems. In other words, the book covers the core of the material in this module and it is a good indicator of the level of analysis that is required. Unfortunately, this text alone is not sufficient. You will be required to know a much wider range of literature.

**Where Bodie and Merton is recommended for a particular topic, you are recommended to read the appropriate parts before the lecture.**

Another book which is frequently referred to below is P G A Howells and K Bain, *The Economics of Money, Banking and Finance* (FT-Prentice Hall, 2002, 2e). This is provided as an introduction to some of the topics below, for those who have no previous experience of finance. Be warned that it is a textbook designed for undergraduates. Its level is not appropriate for this module.

**Note:** the numbers in square brackets, [ ], under 'Reading' refer to items listed in section 9 below. References in italics are websites.

Lect. no.	UWE week	w/c date	Title	Reading
1	9	27.9.04	(Unused – QM revision)	
2	10	4.10.04	What a financial system does	[1] chs 1,2; [2] ch 1; [5] ch 1
3	11	11.10.04	Finance and the real economy	[1] ch 2; [4] ch 1;
4	12	18.10.04	Markets v intermediaries	[2] ch 1; [5] ch 1
5	13	25.10.04	Interpreting financial statements	[1] ch 3
6	14	1.11.04	The time value of money	[1] chs 4,5; [5] chs 5,6;
7	15	8.11.04	Capital budgeting and investment decisions	[1] ch 6
8	16	15.11.04	Principles of asset valuation - bonds	[1] chs 7,8; [2] chs 8-11
9	17	22.11.04	Principles of asset valuation - equities	[1] ch 9; [2] chs 8-11
10	18	29.11.04	The need for regulation	[2] ch 25; <i>FSA</i> ; <i>BIS</i> ; [5] ch 1
11	19	6.12.04	Sources of system failure	[2] ch 11; [3] chs 1,2; [4] chs 1,2; [6]; [7]
12	20	13.12.04	Consequences of system failure	[2] ch 11; [4] chs 1,2; [6]; [7]

## 5. Seminars

### **Wk3: 11.10.04**

1. Outline the functions of a financial system
2. In what ways are these functions carried out more efficiently today than they were say in Adam Smith's day?
3. Give an example of how the principal-agent problem might prevent you from getting finance. How might you overcome the problem?
4. How does 'moral hazard' affect the insurance industry? How do insurance companies deal with it?

**Wk4: 18.10.04**

1. Explain how financial activity might affect *both* the level and composition of aggregate demand.
2. How might the functioning of the financial system influence the allocation of resources in an economy?

**Wk5: 25.10.04**

1. How would you explain the simultaneous existence of financial markets and intermediaries?
2. Why do households generally tend to deal with intermediaries rather than markets?
3. Give some examples of the way in which markets and intermediaries charge for their services?

**Wk6: 1.11.04**

1. Prepare answers to problems 3.1 to 3.8 in ch.3 of Bodie and Merton (relating to the Ruffy Stuffed Toy Company).

**Wk7: 8.11.04**

1. Prepare answers to questions 1, 3 and 5 in ch.5 of Bodie and Merton.

**Wk8: 15.11.04**

1. Prepare answers to questions 1, 2 and 3 in ch.6 of Bodie and Merton

**Wk9: 22.11.04**

1. Prepare answers to questions 1, 2, 5 in ch.7 and 1, 3 in ch.8 of Bodie and Merton

**Wk10: 29.11.04**

1. Prepare answers to questions 1, 2, 5 in ch.9 of Bodie and Merton.

**Wk11: 6.12.04**

Why are many financial services subject to a high level of regulation?

**Wk12: 13.12.04**

The largest source of corporate funding is retained profits. Does this suggest that the financial system is failing UK industry?

## **6. Assessment Offences – Cheating, Collusion and Plagiarism**

The university encourages the use of a wide variety of assessment methods including coursework of various kinds. Consequently, it takes a very strict view of assessment offences like plagiarism and collusion (both of which, alas, have been facilitated by recent technological developments). The penalties for infringement are draconian. Details of the rules and penalties are included in the handbook relating to this course as a whole. You should read them carefully and follow them to the letter.

## **7. Assessment**

### **7.1 Regulations**

Regulations governing assessment are contained in the handbook relating to the course. You are advised to study these carefully. As far as this module is concerned, there are two elements to the assessment.

'Element A ' is an unseen exam of 2 hours. You will be required to answer four questions from a list of eight. The exam will be held during the university's assessment period: 10.1.05 to 21.1.05.

'Element B' is an essay of up to 1500 words, chosen from the following list:

1. Download the latest profit and loss and balance sheet data (you may also need the notes to the accounts) of any firm of your choice and write a brief report of its financial position using the five criteria in table 3.5 (profitability, assets, leverage, liquidity, market value) of Bodie and Merton.
2. Explain how an efficiently functioning financial system contributes to the operation of the real economy.
3. Explain why financial services are often subject to high degree of regulation and outline briefly the structure of the UK regulatory framework.

The marks from these two elements will be combined and averaged with equal weighting.

Students who fail to meet the assessment requirements at the first attempt will be offered a second assessment opportunity in August during which they will be required to sit another examination and/or do another essay, in both cases similar to those required at the first attempt.

## 7.2 Guidelines

The learning outcomes for this module include both a working knowledge of a range of financial techniques and the ability to understand and make judgements about the functioning of the financial system. The lecture and seminar programmes are designed to support both of these. However, when it comes to assessment, the former, technical, skills are more easily assessed by numerical problems set within the context of a timed examination, while evaluative skills are better assessed through essays which can be written with time for reflection and access to a variety of sources. As a guide to what is required, your attention is drawn to the criteria below. These are the criteria required to complete the assessment successfully.

Exam: the emphasis here is upon being able to provide 'correct' answers to the questions, which will often be numerical. Getting the correct answers requires the use of appropriate techniques of financial analysis combined with a degree of arithmetic/mathematical competence. A satisfactory level of achievement will require:

- a demonstration that the nature of the problem is recognised and what the relevant techniques are;
- the ability to use the correct techniques to solve at least half of the problem;
- generally accurate calculations.

Some degree of trade-off is acceptable. For high marks, and the possibility of distinction, these criteria must be satisfied more completely.

Essays: **The essay** requires students to demonstrate factual knowledge and analytical skills but also skills of debate, reasoning and evaluation. In assessment of the essay points that will be credited include:

- ability to answer the question
- understanding the key issues
- evidence of research/reading
- effective use of English

- clarity of expression
- appropriate referencing of source material and a bibliography
- use of appropriate diagrams, where relevant

## 8. Previous Exam papers

Since this is the first time that this module has been offered, there are no previous exam papers available. However, a 'sample' paper will be published before the end of term, 16.12.05.

## 9. Source material

The numbers in brackets are those used in the week by week lecture programme (see '4' above).

### A. Books:

- [1] Z Bodie and R C Merton, *Finance* (Prentice-Hall, 2000).
- [2] P G A Howells and K Bain, *The Economics of Money, Banking and Finance* (FT-Prentice Hall, 2002, 2e).
- [3] A Shleifer, *Inefficient Markets* (Oxford U P, 2000)
- [4] J Toporowski, *The End of Finance* (Routledge, 2000)
- [5] D Blake, *Financial Market Analysis* (McGraw-Hill, 2e, 2000)
- [6] C Kindleberger, *Manias, Crashes and Panics* (Basic, 1978)
- [7] G Soros, *The Crisis of Global Capitalism* (Public Affairs, 1998)

### B: Journals

- D W Diamond and P H Dybvig, 'Bank Runs, Deposit Insurance and Liquidity,' *Journal of Political Economy*, (1983), 91(3)
- Bank of England, 'The Equity Market Crash', *Bank of England Quarterly Bulletin*, (1988) February
- J Y Campbell and J Cochrane, 'By force of habit: a consumption based explanation of aggregate stock market behaviour', *Journal of Political Economy*, (1999) 107
- R Shiller, 'Do stock prices move too much to be justified by subsequent changes in dividends', *American Economic Review*, (1981) 71

### C: Websites

Bank for International Settlements: [www.bis.org](http://www.bis.org)  
 Financial Services Authority: [www.fsa.gov.uk](http://www.fsa.gov.uk)  
 Bank of England: [www.bankofengland.co.uk](http://www.bankofengland.co.uk)

### D: General interest

The following are not directly related to issues in the course, but you may find some or all of interest:

- N Ferguson, *The House of Rothschild* (Viking, 1998) 2 vols.
- D Kynaston, *The City of London* (Pimlico, 1994-2003) 4 vols.
- D Kynaston, *History of the Financial Times* (Viking, 1988)
- N Ferguson, *The Cash Nexus* (Basic, 2001)
- G Davies, *A History of Money* (Univ. Wales Press, 3e, 2002)