

PAPER – 8 : FINANCIAL MANAGEMENT AND ECONOMICS FOR FINANCE

(One paper – Three hours – 100 Marks)

SECTION A: FINANCIAL MANAGEMENT (60 MARKS)

Objective: To develop an understanding of various aspects of Financial Management and acquire the ability to apply such knowledge in decision-making.

1. Financial Management and Financial Analysis

(i) Introduction to Financial Management Function

- a) Objective and scope of financial management
- b) Role and purpose
- c) Financial management environment
- d) Functions of finance executives in an organization
- e) Financial distress and insolvency.

(ii) Financial Analysis through Ratios

- a) Users of the financial analysis
- b) Sources of financial data for analysis
- c) Calculation and Interpretation of ratios:
 - Analysing liquidity
 - Analysing leverage
 - Analysing solvency
 - Analysing efficiency/ activity
 - Analysing profitability
- d) Limitations of ratio analysis

2. Financing Decisions

(i) Sources of Finance

- a) Different Sources of Finance, Characteristics of different types of long term debt and equity finance, Method of raising long term finance

- b) Different Sources of short term Finance
- c) Internal fund as a source of finance
- d) International sources of finance
- e) Other sources of finance- Sale and lease back, Convertible debt, Venture capital, Grants etc.

(ii) Lease Financing

- a) Concept and Classification
- b) Significance and Limitations of Lease Financing
- c) Financial Evaluation of Leasing Decision

(iii) Cost of Capital

- a) Significance of cost of capital
- b) Factors of cost of capital
- c) Measurement of costs of individual components of capital
- d) Weighted average cost of capital (WACC)
- e) Marginal cost of capital
- f) Effective Interest rate

(iv) Capital Structure Decisions

- a) Significance of capital structure
- b) Determinants of capital structure
- c) Capital structure planning and designing
- d) Designing of optimum capital structure
- e) Theories of Capital Structure and value of the firm- relevancy and Irrelevancy of capital structure.
- f) EBIT - EPS Analysis, Breakeven- EBIT Analysis.
- g) Under/ Over Capitalisation.

(v) Leverages

- a) Types of Leverages- Operating, Financial and Combined
- b) Analysis of leverages

3. Capital Investment and Dividend Decisions

(i) Capital Investment Decisions

- a) Objective of capital investment decisions
- b) Methods of Investment appraisal:
 - Payback period, Discounted payback period
 - Accounting Rate of Return (ARR),
 - Net Present Value (NPV) - The meaning of NPV, Strengths and limitations of NPV method, The working capital adjustment in an NPV analysis, Capital rationing, Equivalent Annual Costs,
 - Internal Rate of return (IRR)- Limitations of the IRR method, Multiple IRRs,
 - Modified internal Rate of Return (MIRR)- Definition and explanation of MIRR, The process for calculating MIRR, Strengths of the MIRR approach.
 - Profitability Index

(ii) Adjustment of Risk and Uncertainty in Capital Budgeting Decision

- a) Probability Analysis
- b) Certainty Equivalent Method
- c) Risk Adjusted Discount Rate
- d) Scenario Analysis
- e) Sensitivity Analysis

(iii) Dividend Decisions

- a) Basics of Dividends
- b) Forms of dividend
- c) Determinants of dividend
- d) Relevancy and Irrelevancy of Dividend Policies- Traditional Approach, Walter's model, Gordon's model, Modigliani and Miller (MM) Hypothesis.

4. Management of Working Capital

(i) Management of Working Capital

- a) The management of working capital- Liquidity and Profitability
- b) The Working capital financing decisions- Primary and Secondary Sources of Liquidity
- c) The working Capital Cycle (operating Cycle), Effectiveness of Working Capital based on its operating and cash conversion cycles
- d) Assessment of working capital requirement
- e) Management of Accounts Receivables (Debtors)
- f) Factoring and Forfaiting
- g) Management of Accounts Payables (Creditors)
- h) Management of Inventory
- i) Management of Cash, Treasury management
- j) Banking norms of working capital finance

SECTION B : ECONOMICS FOR FINANCE (MARKS: 40)

Objective:

To develop an understanding of the concepts and theories of Economics in the context of Finance and acquire the ability to address application oriented issues.

1. Determination of National Income

- (i) Macro Economic Aggregates and Measurement of National Income
- (ii) The Keynesian Theory of Determination of National Income

2. The Money Market

- (i) The Concept of Money Demand: Important Theories of Demand for Money
- (ii) The Concept of Money Supply
- (iii) Monetary Policy

3. Public Finance

- (i) Fiscal functions: An Overview.
- (ii) Market Failure
- (iii) Government Interventions to Correct Market Failure

(iv) Fiscal Policy

4. International Trade

(i) Theories of International Trade

(ii) Trade Policy – The Instruments of Trade Policy

(iii) Trade Negotiations

(iv) Exchange Rates and its economic effects

(v) International Capital Movements: Foreign Direct Investment

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