Course: Principles of Financial Markets
Code: 10BBA30003

Type: Required Year: 2 Semester: 2
ECTS Credits: 6
Language: Spanish
Coordination:

Faculty:
Carmen Ansotegui Olcoz
Santiago Forte Arcos

Course Requirements:
Management development courses and required courses in Accounting and Financial Analysis, Mathematics, Statistics and Economics.

Workload distribution:
Lectures: 35 hours
Participatory sessions: 30 hours
Independent study: 109 hours
Tutorials / feedback: 6 hours

Course contribution to programme:
Financial Markets are the framework in which the supply and demand of the economy’s available financial resources are balanced. Given that any economic activity calls for financing sources, knowing how the markets and the assets negotiated in them work is a cornerstone in the education of any Business Studies degree student.

Course learning objectives:
After studying this subject, students should be able to:

- Identify the basic characteristics of the various financial tools.
- Evaluate the various financial tools.

Skills developed:
- The ability to acquire, understand and structure knowledge of the markets critically.
- The ability to make decisions/judgements.
- The ability to develop strategic thought and systematic thought.
Contents and methodology:
Block 1: Financial Mathematics

- Contents:

1.1. Introduction: Basic concepts
1.2. Types of financial laws
1.2.1. Simple capitalisation and discount
1.2.2. Compound capitalisation and discount
1.3. Income
1.3.1. Classification
1.3.2. Valuation
1.4. Inflation
1.5. Fractional capitalisation of interests
1.6. Loan amortisation
1.7. Investment selection criteria: NPV, IPR, Payback
1.7.1. Net Present Value (NPV) criteria (VAN): The Criterion
1.7.2. Payback criteria
1.7.3. Internal Profit Rate (IPR) criteria

- Activities:

11 hours of lectures
7.5 hours of participatory classes

Block 2: Fixed income

- Contents:

2.1. Introduction
2.2. Fixed income profit
2.2.1. Internal Profit Rate (IPR): The Yield Curve
2.2.2. Temporal Structure of Interest Rates: TSIR
2.3. Valuation
2.4. Risk measures
2.4.1. Duration
2.4.2. Convexity
2.5. Corporate fixed income

- Activities:

8 hours of lectures
7.5 hours of participatory sessions

Block 3: Variable income

- Contents:

3.1. Asset income and risk
3.2. Portfolio profit and risk
3.3. Diversification effect
3.4. Efficient portfolios: the Markowitz model
3.5. Generalisation of the Markowitz model: the risk-free asset
3.6. Revision
3.7. Capital Asset Pricing Model: CAPM
   3.7.1. Market balance: Capital Market Line
   3.7.2. Asset balance: Security Market Line
3.8. The CAPM and valuation of Variable Income: The Dividend Method
3.9. Practical problems of CAPM implementation

- Activities:

8 hours of lectures
7.5 hours of participatory classes

Block 4: Financial derivatives

- Contents:

4.1. Futures
4.2. Options

- Activities:

8 hours of lectures
7.5 hours of participatory classes

Activities in the lectures and participatory sessions:

Lectures: The Professor combines theoretical presentations with exercises.

Participatory classes: before the class, students should have submitted their proposals for the exercise solutions. During the session, the suggested solutions will be discussed, any doubts will be dealt with and other complementary exercises will also be discussed.
Voluntary tutorials for those students who ask for help in solving the exercises and in using the various tools.

**Evaluation:**
First exam session:

Weekly submission of practicals and participatory class work: 25%.

Partial exam: 25%.

Final exam: 50%.

In all cases, a mark of 5 or higher is required in the final exam to pass the course at the first exam session.

Extraordinary exam:

The marks for the practicals, class work and the partial exam shall be kept, and the evaluation system is the same as for the ordinary exam session, which is to say that a mark of 5 or over is required in the extraordinary exam to pass the course.

Later exam sessions:

The marks for practicals, class work and the partial exam will not be considered in any later exams.

**Core bibliography:**
Class material.

**Complementary bibliography and reading material:**