

**rate:** Measuring exchange rate movements-Exchange rate equilibrium –Factors effecting foreign exchange rate- Forecasting foreign exchange rates.Interest Rate Parity, Purchasing Power Parity &International Fisher effects, Arbitrage, Types of Arbitrage – Locational, Triangular and Covered Interest Arbitrage. (Theory & Problems).

#### Unit 6:

**Foreign Exchange exposure:** Management of Transaction exposure-Management of Translation exposure- Management of Economic exposure-Management of political Exposure- Management of Interest rate exposure.

**International Capital Budgeting:** Concept, Evaluation of a project. (Theory & Problems).

**Question Paper:** 60 % Theory 40% problems. Case preferably from capital budgeting.

#### COURSE OUTCOMES:

1. The student will have an understanding of the International Financial Environment.
2. The student will learn about the foreign exchange market, participants and transactions.
3. The student will be able to use derivatives in foreign exchange risk management.
4. The student will be able to evaluate the Firm's Exposure to risk in International environment and various theories associated with it.

#### RECOMMENDED BOOKS:

1. International Corporate Finance - Jeff Madura, Cengage Learning, 10/e 2012.
2. International Finance Management - Eun & Resnick, 4/e, Tata McGraw Hill.

#### REFERENCE BOOKS:

1. International Financial Management – Apte P. G, 6/e, TMH, 2011.
2. International Financial Management – Madhu Vij, Excel Books, 2010.

#### CO-PO MAPPING

CO	PO				
	PO1	PO2	PO3	PO4	PO5
CO1	X				
CO2				X	X
CO3				X	
CO4	X				

#### FINANCIAL DERIVATIVES

Semester	IV	CIE Marks	: 40
Course Code	18MBAFM405	SEE Marks	: 60
Teaching Hours / week (L:T:P)	3-0-0	Exam Hours	: 03
Credits : 03			

#### Course Objectives:

1. To understand various concepts and terminologies used in various financial derivatives.
2. To explain and critically evaluate various financial derivatives such as forwards, futures, options, financial swaps, credit derivatives etc.
3. To apply various financial derivatives in hedging risk and analyse it.

#### Unit1:

**An Overview of Financial Derivatives:** Meaning, benefits, types (both exchange traded and OTC traded) and features of financial derivatives-Factors causing growth of derivatives-functions of derivatives market-Derivative market players (Hedgers, speculators and arbitrageurs)-Derivatives market in India. (Theory).

#### Unit2:

**Futures and Forwards:** Meaning, features and types of futures/forwards-Futures vs Forwards-Mechanics of buying and selling futures/forwards-Hedging through futures/forwards-Marking-to-market process-contract specifications of stock, index and commodity futures-valuation of futures/forwards using cost of carry model-Arbitrage process-Interest Rate Futures & options. (Numerical problems on MTM and valuation of futures/forwards). (Theory and Problems).

#### Unit3:

**Option Contracts:** Meaning, features and types of option contracts-Options vs futures/forwards-Mechanics of buying and selling option contracts-contract specifications of stock, index and commodity options-Option pricing-factors affecting option pricing-Valuation of option contracts using Black Scholes model and Binomial model-Put-call parity theory-Option Greeks-Option Trading strategies-Interest rate options-Exotic options. (Numerical problems on all aspects except exotic options). (Theory and Problems).

#### Unit4:

**Financial Swaps:** Meaning, features and advantages of financial swaps-Types of financial swaps (Interest rate swap, currency swap, equity swap and commodity swap)-Mechanics of interest rate swaps- Triangular swap (Numerical problems only on interest rate swap including triangular swap)-valuation of interest rate swaps- Only theory. (Theory and Problems).

### Unit5:

**Commodity Derivative Market:** Meaning of commodity derivatives-Commodity derivative exchanges (with commodities traded) in India-Trading and settlement system of commodity derivatives-SEBI Guidelines for commodity market-commodities traded. (Theory).

### Unit6:

**Credit Derivatives and VaR:** Credit Derivatives-Total Return Swap (TRS)-Credit Default Swap (CDS)-Types of CDS-Asset Backed Securities (ABS)-Collateralised Debt Obligation (CDO)-Sub-Prime Crisis-2007-Credit Spread Options-Probability of Default- Forward Rate Agreement (FRA)-Interest Rate Caps/Floors/Collars-Types of Interest Rates-Zero Rate-Forward Rate-Value-at-Risk-Meaning, VaR Models-Stress testing and back testing. (Numerical problems only on VaR, Zero Rate and Forward rate). (Theory and Problems).

**Question paper:** 40 %Theory and 60% Problems.

### COURSE OUTCOMES:

At the end of the course, the students will be able to:

1. Understand the mechanism of forwards/futures, options, financial swaps, various credit derivatives and VaR with their features, merits and demerits.
2. Assess the application of forwards/futures, options, financial swaps, various credit derivatives and VaR using numerical problems.
3. Application of financial derivatives in risk management.
4. Critically evaluate various financial derivatives.

### RECOMMENDED BOOKS:

1. Options Futures & Other Derivatives, John C. Hull, Pearson Education.
2. Derivatives and Risk Management, Rajiv Srivastava, Oxford University Press, 2010.
3. Options & Futures- Vohra & Bagri, 2/e, TMH.

### REFERENCE BOOKS:

1. Derivatives, Principles and Practice, Sundaram& Das, Mc Graw Hill.
2. Options & Futures –Edwards & Ma, 1/e, McGraw Hill.

### CO-PO MAPPING

CO	PO				
	PO1	PO2	PO3	PO4	PO5
CO1	X				
CO2	X			X	
CO3				X	
CO4				X	

## CORPORATE VALUATION

Semester	IV	CIE Marks	: 40
Course Code	18MBAFM406	SEE Marks	: 60
Teaching Hours / week (L:T:P)	3-0-0	Exam Hours	: 03
Credits : 03			

### Course Objectives:

1. Identify the purpose of corporate valuation and to obtain an overview of the basic corporate valuation process
2. To familiarize the students with the standard techniques of corporate valuation.
3. To develop analytical skills and communication strategies for discussing corporate valuation.
4. To understand the valuation in the contexts of IPOs, M&As, Bankruptcy cases

### Unit 1:

#### Corporate valuation-an Overview-Context of valuation-Approaches to Valuation-Features of the valuation process:

Enterprise DCF Model-Analysing historical performance-Estimating the cost of Capital-Forecasting performance-Estimating the continuing value-Calculating and interpreting the results-Other DCF models: Equity DCF Model: Dividend discount model, free cash flow to Equity (FCFE) model-Adjusted present value model-Economic profit model-Applicability and Limitations of DCF analysis (Theory and problems).

### Unit 2:

**Non DCF approaches to valuation:** Book value approach, Adjusted book value approach, Stock and debt approach (numerical problems in each of these methods). Market efficiency and valuation. Call option based valuation (theory only because Numerical problems on Black and Scholes –Binomial methods are considered in Derivatives). Relative valuation-Steps involved in Relative valuation-Equity valuation multiples-Enterprise valuation multiples-Choice of multiple-Best practices using multiples-Assessment of relative evaluation. (Theory and problems).

### Unit 3:

Advanced issues in valuation-Valuation of companies of different kinds-valuation in different contexts-Loose ends of valuation-Valuation of intangible assets: Patents, trademarks, copyrights and licenses; Franchises; Brands, WACCVs Flow to equity method. (Theory and problems).

### Unit 4:

**Strategic financing decisions:** Valuation and financing Decisions in ideal capital markets, Capital structure and value in a perfect world, Information asymmetry, Share buy back and valuation. (Theory).