

**Finance**

**2007**

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ISBN 978 1 84482 665 0

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## Preface

Subject benchmark statements provide a means for the academic community to describe the nature and characteristics of programmes in a specific subject or subject area. They also represent general expectations about standards for the award of qualifications at a given level in terms of the attributes and capabilities that those possessing qualifications should have demonstrated.

This subject benchmark statement, together with others published concurrently, refers to the **bachelor's degree with honours**<sup>1</sup>. In addition, some subject benchmark statements provide guidance on integrated master's awards.

Subject benchmark statements are used for a variety of purposes. Primarily, they are an important external source of reference for higher education institutions (HEIs) when new programmes are being designed and developed in a subject area. They provide general guidance for articulating the learning outcomes associated with the programme but are not a specification of a detailed curriculum in the subject.

Subject benchmark statements also provide support to HEIs in pursuit of internal quality assurance. They enable the learning outcomes specified for a particular programme to be reviewed and evaluated against agreed general expectations about standards. Subject benchmark statements allow for flexibility and innovation in programme design and can stimulate academic discussion and debate upon the content of new and existing programmes within an agreed overall framework. Their use in supporting programme design, delivery and review within HEIs is supportive of moves towards an emphasis on institutional responsibility for standards and quality.

Subject benchmark statements may also be of interest to prospective students and employers, seeking information about the nature and standards of awards in a given subject or subject area.

The relationship between the standards set out in this document and those produced by professional, statutory or regulatory bodies for individual disciplines will be a matter for individual HEIs to consider in detail.

This subject benchmark statement was produced by a group of subject specialists drawn from, and acting on behalf of, the subject community. The final draft subject benchmark statement went through a full consultation with the wider academic community and stakeholder groups. The process was overseen by the Quality Assurance Agency for Higher Education (QAA). This subject benchmark statement will be revised no later than five years from its publication date, to reflect developments in the subject area and the experiences of HEIs and others who have been working with it. The review process will be overseen by QAA in collaboration with the subject community.

QAA publishes and distributes this subject benchmark statement and other subject benchmark statements developed by similar subject-specific groups.

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<sup>1</sup> This is equivalent to the honours degree in the Scottish Credit and Qualifications Framework (level 10) and in the Credit and Qualifications Framework for Wales (level 6).

The Disability Equality Duty (DED) came into force on 4 December 2006<sup>2</sup>. The DED requires public authorities, including HEIs, to act proactively on disability equality issues. The Duty complements the individual rights focus of the *Disability Discrimination Act* (DDA) and is aimed at improving public services and outcomes for disabled people as a whole. Responsibility for making sure that such duty is met lies with HEIs.

The Disability Rights Commission (DRC) has published guidance<sup>3</sup> to help HEIs prepare for the implementation of the Duty and provided illustrative examples on how to take the duty forward. HEIs are encouraged to read this guidance when considering their approach to engaging with components of the Academic Infrastructure<sup>4</sup>, of which subject benchmark statements are a part.

Additional information that may assist HEIs when engaging with subject benchmark statements can be found in the DRC revised *Code of Practice: Post-16 Education*<sup>5</sup>, and also through the Equality Challenge Unit<sup>6</sup> which is established to promote equality and diversity in higher education.

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<sup>2</sup> In England, Scotland and Wales

<sup>3</sup> Copies of the guidance *Further and higher education institutions and the Disability Equality Duty*, guidance for principals, vice-chancellors, governing boards and senior managers working in further education colleges and HEIs in England, Scotland and Wales, may be obtained from the DRC at [www.drc-gb.org/library/publications/disabilty\\_equality\\_duty/further\\_and\\_higher\\_education.aspx](http://www.drc-gb.org/library/publications/disabilty_equality_duty/further_and_higher_education.aspx)

<sup>4</sup> An explanation of the Academic Infrastructure, and the roles of subject benchmark statements within it, is available at [www.qaa.ac.uk/academicinfrastructure](http://www.qaa.ac.uk/academicinfrastructure)

<sup>5</sup> Copies of the DRC revised *Code of Practice: Post-16 Education* may be obtained from the DRC at [www.drc-gb.org/employers\\_and\\_service\\_provider/education/higher\\_education.aspx](http://www.drc-gb.org/employers_and_service_provider/education/higher_education.aspx)

<sup>6</sup> Equality Challenge Unit, [www.ecu.ac.uk](http://www.ecu.ac.uk)

# **1 Defining principles**

1.1 This subject benchmark statement is intended to cover programmes of study in finance in UK higher education institutions (HEIs) leading to the award of an honours degree. The study of finance as the major component of an undergraduate degree involves the consideration of both conceptual and applied aspects of the subject. The term 'conceptual' is intended to explicitly include theoretical considerations. The term 'applied' is intended to include both the application and use of empirical methods, and relating theory to practice.

1.2 Degree programmes in the area typically have titles of the form 'finance' or 'financial management'. Most degree programmes which contain a substantial finance content will also include elements of accounting and economics.

1.3 Some programmes with titles other than those indicated can sensibly be evaluated relative to this subject benchmark statement. It is the responsibility of an individual degree-awarding institution to relate any pathway within a degree programme to an appropriate subject benchmark statement.

1.4 Finance can be studied as part of a joint programme with related or unrelated disciplines (for example, finance and a modern language, finance and accounting, finance and economics, finance and law, and finance and mathematics). In such cases this subject benchmark statement should be applied in conjunction with others relating to the joint programme. In the case of combined programmes, the scope, depth and balance of concepts and application, in terms of subject coverage, should not result in a neglect of either the conceptual or the applied aspects of the subject.

1.5 Students taking a degree in finance do so for a variety of reasons. For example, many may be using the degree as an introduction to the worlds of business and finance. Others might be studying finance as a purely intellectual pursuit for its own sake. Given the variety of reasons for which students take finance degrees, it is to be expected that such degree schemes will have a range of aims. However, all degree programmes in the subject should fit the subject benchmark statement.

# **2 Nature and extent of finance**

2.1 Finance is an activity concerned with the workings of capital markets and the interaction between such markets and economic units, such as households, firms, financial institutions, government and overseas enterprises.

2.2 Finance as a degree subject requires students to study the design and operation of financial systems, structures and instruments and, in particular, to understand the pricing of financial assets, the measurement and management of risk, and the possibilities for value maximising behaviour by the firm and household. Such study can be pursued from a variety of perspectives, including, but not restricted to, the behavioural, ethical, economic, sustainable and statistical/mathematical. Although often studied in conjunction with accounting an in-depth knowledge of accounting is not required. However, basic knowledge of accounting practices and the principles of taxation, and their effect on the firm is required.

### **3 Subject-specific knowledge and skills**

3.1 Paragraph 3.2 specifies subject-specific knowledge and skills that are outcomes of successful completion of a finance honours degree. Associated with each item is a set of examples, given in parentheses. The examples are given to help illustrate the outcomes of a finance degree, not to act as a set of prescriptions. It is not expected that degree programmes should include all the examples and most degree programmes will include additional learning outcomes.

3.2 On completion of a degree covered by this subject benchmark statement, a student should normally have the following subject-specific knowledge and skills.

- An appreciation of the nature of the contexts in which finance can be seen as operating, including knowledge of the institutional framework necessary for understanding the role, operation and function of markets and financial institutions (eg the economic, legal, regulatory and tax environment, both national and international; the firm; the capital markets and the public sector).
- A knowledge of the major theoretical tools and theories of finance, and their relevance and application to theoretical and practical problems (eg concept of arbitrage and examples of its use; financial mathematics and capital budgeting criteria; informational efficiency; optimal risk sharing; portfolio theory; asset pricing models and the valuation of securities; cost of capital; derivative pricing; risk management; information asymmetry; principal agency relationships; signalling; Fisher separation and capital budgeting criteria; behavioural finance; term structure and the movement of interest rates; determination of exchange rates and financial intermediation).
- An ability to interpret financial data including that arising in the context of the firm or household from accounting statements and data generated in financial markets. The interpretation may involve analysis using statistical and financial functions and procedures such as are routinely available in spreadsheets (eg Microsoft Excel) and statistical packages. It may assume the skills necessary to manipulate financial data and carry out statistical and econometric tests (eg estimation and interpretation of asset pricing models; financial modelling and projections; event studies and residuals analysis; elements of time series analysis, such as serial correlation mean reversion, and stochastic volatility).
- An understanding of the relationship between financial theory and empirical testing, and application of this knowledge to the appraisal of the empirical evidence in at least one major theoretical area. The appraisal should involve some recognition of the limitation and evolution of empirical tests and theory (eg the efficient markets hypothesis; anomalies; pricing of derivatives and other securities; bond portfolio management; exchange rates; raising capital and capital structure).
- An understanding of the financing arrangements and governance structures of business entities, and an appreciation of how theory and evidence can be combined to assess the effectiveness and efficiency of such arrangements (eg decisions as to sources of finance and financial structure; the pricing of corporate securities; the market for corporate control; corporate governance structures and mechanisms; financial planning and international dimensions of finance).

- An understanding of the factors influencing the investment behaviour and opportunities of private individuals (bonds, equities, and derivatives; risk aversion; risk/return trade-offs; portfolio management and performance measurement; pensions and long term savings; the tax treatment of savings and investments; international diversification; forex risk; objectives of and constraints on institutional investors and advisors).
- An understanding of financial service activity in the economy, and an appreciation of how finance theory and evidence can be employed to interpret these services (for example, information asymmetry, adverse selection and moral hazard could be employed to analyse the fundamental nature of services, such as insurance, pensions, bank lending and consumer credit, and also explore fundamental problems arising in such financial service provision. Efficient market hypothesis could be used to explore evidence for fund manager performance and the effectiveness of equity and bond saving services).
- An ability to understand financial statements, and a basic appreciation of the limitations of financial reporting practices and procedures (eg financial statement analysis; the relation between cash flow accounting and accrual accounting; discretionary accounting practices; and the nature of accounting measures of financial performance).

## **4 Cognitive abilities and generic skills**

4.1 On completion of a degree covered by this subject benchmark statement, a student should have the following abilities and skills:

- a capacity for the critical evaluation of arguments and evidence
- an ability to analyse and draw reasoned conclusions concerning structured and, to a more limited extent, unstructured problems from a given set of data and from data which must be acquired by the student
- ability to locate, extract and analyse data from multiple sources, including the acknowledgement and referencing of sources
- numeracy skills, including the ability to manipulate financial and other numerical data and to appreciate statistical concepts at an appropriate level
- skills in the use of communication and information technology in acquiring, analysing and communicating information (these skills include the use of spreadsheets, word processing software, standard statistical packages; electronic financial databases; the internet and email)
- communication skills including the ability to present quantitative and qualitative information together with analysis, argument and commentary in a form appropriate to different intended audiences
- capacities for independent and self-managed learning
- normally, experience of working in groups, and other interpersonal skills, and in presenting the results of their work orally as well as in written form.

## **5 Teaching, learning and assessment**

5.1 It is the responsibility of each institution offering a degree programme in finance to select a set of teaching, learning and assessment activities that is appropriate for meeting the aims and desired outcomes of the programme. Whatever set of activities is determined, an institution should be able to demonstrate (for all pathways through the degree programme leading to the award of a degree in finance) how these activities enable students to achieve the subject-specific knowledge and skills set out in section 3 and the cognitive abilities and generic skills set out in section 4.

5.2 No one set of teaching and learning activities is uniquely suitable to the study of finance independent of the context of the degree programme. The design of such activities will take into account:

- the nature of the study of finance and the need to achieve an appropriate balance between the conceptual (including theoretical) and applied aspects of the subject
- the extent to which the degree programme reflects current research and academic debate
- the nature of the student population addressed by a particular institution (for example, predominantly full-time or sandwich students; mainly part-time currently in employment and level of relevant experience)
- the mode of delivery (for example, full-time, part-time, sandwich, modular and distance learning).

5.3 Assessment activities can have both formative and summative aspects. Therefore, teaching and learning activities and assessment activities cannot always be rigidly separated.

5.4 No single form of assessment activity is uniquely appropriate for evaluating student achievement on degree programmes in finance. There should be a suitable balance and mix of assessment activities to allow and require students to demonstrate not only their understanding of the conceptual and applied aspects of finance but also the cognitive abilities and non-subject-specific skills they have developed as a consequence of their studies. Also consideration needs to be given to the balance between formal assessment activities and other forms of non-assessed experiences that together contribute to the development of the finance graduate.

5.5 The balance and mix of assessment activities should take into account the reliability of the chosen activities in providing indicators of individual performance in terms of the outcomes indicated in sections 3 and 4 above.

## **6 Benchmark standards**

6.1 Here are presented guides as to minimum standards of achievement that warrant the award of an honours degree - the threshold level of achievement to be matched or exceeded by all successful graduates. We also identify ways in which 'typical' students can distinguish themselves from 'threshold' students.

6.2 Evidence of achievement with respect to many of the learning outcomes of a finance degree programme is likely to spread across several units, courses or modules making up the programme. At present, the award and classification of degrees at any institution will depend on that institution's rules and procedures. These rules and procedures are usually based on an individual student's profile of achievement across the units, courses or modules taken as part of the degree programme. The rules and procedures often incorporate provisions for condoning or compensating failures on specific units, courses or modules. They also have the effect of trading off achievement levels for particular learning outcomes against relative lack of achievement in respect of other learning outcomes.

6.3 It is not the purpose of this subject benchmark statement to specify rules and procedures for classifying finance degrees. However, if the achievement of specific learning outcomes is not shown directly by passing individual units, courses or modules, institutions will need to demonstrate how evidence is gathered, across the whole range of assessment activities, to support degree awards. Students should be able to demonstrate ability in relation to most of the learning outcomes and they should have exposure to all others.

6.4 In describing attainment, the following two dimensions are identified.

- i Basic knowledge and understanding - basic knowledge and understanding is characterised by knowledge of a topic in outline, together with an understanding which demonstrates some limited ability to make comparisons and critical evaluations. Graduates with thorough knowledge and understanding can be expected to explain what they have learnt and to display critical evaluation of the knowledge.
- ii Cognitive abilities and skills - basic levels of attainment are characterised by minimal proficiency in the ability or skill. Graduates with a threshold level of attainment can be expected to perform well in simple or straightforward situations (defined below). Graduates with high levels of cognitive abilities and skills can also perform well in complex situations.

A situation is described as 'simple' if there are few items of data and the relationships among them are restricted to principal factors under consideration in a particular topic. Straightforward situations are slightly more complex than simple situations and contain routine elaborations of simple situations. By way of contrast, complex situations are characterised by many items of data, multiple relationships, extraneous data and, frequently, a mix of qualitative and quantitative criteria to be applied.

6.5 Given the above, threshold graduates will:

- demonstrate a basic appreciation of the nature of the context and institutional framework in which finance operates
- demonstrate a basic knowledge of the main theories used in finance and a basic ability to apply them in simple structured situations from given data generated for the purpose
- reveal a basic ability to interpret straightforward financial data and carry out simple statistical and financial analysis

- be able to relate empirical evidence to finance theory in at least one of the main areas of finance with a basic understanding of the significance and limitations of such evidence
- demonstrate a basic understanding of the financial needs of business entities, a basic appreciation of how theory and evidence may be used to guide practice, and a basic understanding of the workings of capital markets, the relationship between risk and return, and the nature and use of financial derivatives
- demonstrate a basic understanding of the principles of personal investment
- demonstrate a basic ability to use and interpret the information in financial statements
- demonstrate possession of the required cognitive abilities and non-subject-specific skills to a basic level of attainment
- demonstrate a basic understanding of the economic environment in which they operate.

6.6 The identification of threshold standards above is intended to represent the minimum standard of achievement consistent with the award of an honours degree in finance by a HEI within the UK. This does not, however, preclude a HEI within the UK from setting higher standards for the award of an honours degree in finance within the dimensions of performance identified in paragraph 6.5. Neither does it preclude such an institution from requiring additional dimensions of performance, relative to those identified in paragraph 6.5 above, for the award of an honours degree in finance.

6.7 Typical graduates can distinguish themselves from threshold graduates by displaying a more thorough knowledge and understanding and enhanced technical abilities. They can also demonstrate an enhanced capacity to develop and apply critical, analytical and problem solving abilities and skills. However, typical graduates are not expected to distinguish themselves from threshold graduates on each of the dimensions of the performance identified in paragraph 6.5 above.

## **Appendix A - Membership of the benchmarking group for finance**

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Professor Paul Draper	University of Exeter
Professor John Holland (Chair)	University of Glasgow
Professor Andrew Marshall	University of Strathclyde
Professor Michael Moore	The Queen's University Belfast
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QAA 163 02/06