Financial Economics (Econ 171A) Course Syllabus

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Office hours: Thursdays 3 – 5 PM or by appointment      Current Draft: Aug 28

Fall, 2008 (Tuesdays and Thursdays: 5:10 am-6:30am)

Course Description

The path-breaking advances in finance theory and practice over the past decades have profoundly changed the financial world. These changes are further accelerated by the extensive globalization of financial markets and the rapid development in financial technologies in recent years. This course provides a rigorous introduction to the fundamentals of modern financial analysis and their applications to business challenges in capital budgeting, project evaluation, corporate investment and financing decisions, and basic security analysis and investment management.

The course is lecture based. Lectures will consist of covering the theory, examples, and class discussion. Homework assignments will focus on applying the material from lectures.

The major topics to be covered are:

• The time-value of money
• Introduction to financial instruments
• Risk and return
• Portfolio theory.
• Capital allocation
• Pricing models, such as the Capital Asset Pricing Model and Index Model
• Market efficiency
• Equity valuation
• Bond pricing and the Term Structure of Interest Rates.
• Derivatives - Pricing and Use
Course Description

Readings

REQUIRED:


RECOMMENDED:

- Hull, John, Options, Futures, and other Derivatives, Pearson education.
- Wall street Journal.

Course Requirements

You are required to attend all classes, participate in class discussions, familiarize yourself with the policies on academic integrity (see below). You should also keep up with general financial news. This will be part of the basis of class discussion.

Your grade will be based on class participation, attendance, in class review problems (short quizzes), problem sets, and the final exam. The final will be closed-book.

Course grades will be determined according to the following weighting scheme:

- 10% Class participation
- 20% Problem sets
- 30% Quizzes
- 40% Final examination

Disability

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please discuss the matter with me at the earliest possible time.

Academic Integrity

You are expected to be honest in all of your academic work. The University policy on academic honesty is distributed annually as a section of the Rights and Responsibilities handbook. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.
**Schedule of Lectures**

**Introduction**

Introduction to Present Value calculation and statistics review

**Institutional Background**

BKM – chapters 1-4

**Time Value of Money and the Price of Risk**

**Risk**

Asset returns. Measures of risk.
BKM – chapter 5

**Portfolio Theory**

BKM – chapters 6-7

**Capital Asset Pricing Model (CAPM) and Its Extensions**

The CAPM and linear risk/return trade-offs. Applications of the CAPM. Empirical evidence and extensions of the CAPM.
BKM – chapter 9

**Index Model**

Single factor security market and single index model
BKM – chapter 8

**Market Efficiency**

Efficient Market Hypothesis (EMH). Implications and empirical tests of the EMH.
BKM – chapter 11

**Valuation**

**Common Stocks**

BKM – chapter 18

**Fixed-income Securities**

BKM – chapter 14-15
**Options**
Options contracts and basic properties. Valuation of options, binominal, risk-neutral pricing, Black-Scholes formula.
BKM – chapter 20-21

**Forwards and Futures**
Forward and futures contracts and prices. Hedging with forward and futures.
BKM – chapter 22

**Tentative chapter -Security Analysis**
**Financial Statement Analysis**
BKM – chapters 19

**Final Review Session**
General course review.

**Final Examination**