


Foundations of Financial Markets

Professor Orly Sade

Stern School of Business - NYU

Professor Orly Sade

1




Today's Class:

- Practical Information about the class (see also the syllabus)
- First topic of the class: financial instruments

Professor Orly Sade

2



Exciting Course: Nobel-Prize-Winning Insights

- Harry Markowitz: Optimal portfolio selection
 - Diversification
- William Sharpe: Capital Asset Pricing Model (CAPM)
 - Risk and return
- Robert Merton, Myron Scholes
 - Option pricing and no arbitrage

Professor Orly Sade

3

The Course Outline

- Financial Instruments and Markets
- Time Value of Money
- Portfolio Selection
- Equilibrium Asset Pricing: The Capital Asset Pricing Model
- Equity Valuation
- Arbitrage
- Fixed Income Securities (Bonds)
- Derivative Securities (Options)
- Market Efficiency and Anomalies
- NYSE visit

Professor Orly Sade 4

Prerequisites

- Finance - the course is self-contained
- The course is heavily quantitative:
 - Algebra and Statistics – (class + problems)
- Calculator
- Use of spreadsheets (core enhancement)

Professor Orly Sade 5

Classroom Behavior

- Respect classmates' desire to learn
- Class participation is encouraged
- Questions are encouraged
- The class starts on time
- Turn off cell phones and other devices
- Getting to know you

Professor Orly Sade 6

Blackboard

- Blackboard
- Has information about:
 - Class material, problems, and solutions
 - TA office hours
 - My office hours
 - Announcements
- Please check it regularly

Professor Orly Sade 7

Grading

- Homework: 15%
- Midterm: 30%
- Core enhancement: 10%
- Final: 45% (cumulative)

Professor Orly Sade 8

Problems

- Solving problems is crucial to learning the material.
- 10 graded problem sets
 - You may discuss the problems in groups.
 - Turn in your own *handwritten* solutions.
 - Show how you get your result.
 - Good-faith effort to answer **all** questions.
 - Late problem sets are not accepted.**
 - Full score if you get credit on **9 out of 10**
- Suggested problems from the books
- Challenging problems

Professor Orly Sade 9

Readings

- Bodie, Kane and Marcus *“Essentials of Investments.”*
- *“Solutions Manual for Essentials of Investments.”*
- Ross, Westerfield, and Jordan, *“Essentials of Corporate Finance,”* Custom Edition.
- RR versus SR

Professor Orly Sade 10

Coming Attraction:

- Financial Instruments

Professor Orly Sade 11