

SYLLABUS

B01.2311

FOUNDATIONS OF FINANCE

Summer 2 Semester, 2008

COURSE DESCRIPTION

This is a quantitative course introducing the fundamental principles of asset valuation within the framework of modern portfolio theory. The key analytical concepts are present value, option value, risk/diversification and arbitrage. These tools are used to value stocks, bonds, options, and other derivatives, with applications to the structure of financial markets, portfolio selection, and risk management.

PREREQUISITE KNOWLEDGE

This is a core course that assumes no prior background in finance but requires knowledge of the following basic economic and statistical concepts: supply and demand curves, including how shifts in the curves change the equilibrium price; indifference curves; mean, standard deviation, covariance and correlation as descriptive statistics; probability statements based on the area under the normal curve; and the regression coefficient as a summary statistic.

INSTRUCTOR

<i>Name</i>	<i>Room</i>	<i>Phone</i>	<i>Email</i>
Professor John Handley	KMC 9-84	212-998-0354	jhandley@stern.nyu.edu

CLASS TIMES AND VENUES

<i>Section</i>	<i>First Class</i>	<i>Days</i>	<i>Time</i>	<i>Room</i>
0A	6 Jul	Sun	9.00am – 12.00pm & 1.00pm – 4.00pm	KMC 3-50
70	2 Jul	Mon & Wed	6.00pm – 9.00pm	KMC 3-50
71	1 Jul	Tue & Thu	6.00pm – 9.00pm	KMC 3-50

A detailed class schedule is set out at the end of this syllabus.

Due to the intensive nature of this course, you are strongly encouraged to keep up to date and work consistently throughout the semester.

CONSULTATION AND ASSISTANCE

I will be available for consultation and assistance on Mondays to Thursdays from 9.00pm – 9.40pm and on Sundays from 4.00pm – 5.20pm in KMC 3-50. These sessions provide an additional forum for questions and answers relating to any of the material covered in class (on that day or in previous classes) and attendance is optional.

ASSESSMENT

(i) Grades

Grades will be based on assignments (10%), a 90 minute midterm exam (30%) and a 180 minute final exam (60%).

The distribution of grades as established by the Department of Finance for core graduate courses is as follows: A (10%); A- (10–15%); B+ (10%); B and B- (50–60%); C+, C, C-, D and F (10–15%).

(ii) Exams

You must take both exams. The midterm exam will be held during the first 90 minutes of class 7 and will be based on classes 1 to 4 inclusive. The final exam will be held during class 12 and will be based on classes 5 to 11 inclusive. Caution: some of the material in classes 5 to 11 necessarily builds upon the earlier material in classes 1 to 4 and so these earlier classes should not be ignored when preparing for the final exam. You should write these exam dates in your diary now.

Both exams will be in multiple choice format and on a closed book basis except as follows: (i) the exam paper will include a formula sheet (a copy of the formula sheet will be distributed to students prior to the exam); and (ii) you may take one 8.5" x 11" (Letter size) sheet of paper (with anything written on both sides) into the midterm exam and you may take two 8.5" x 11" sheets into the final exam. But please be warned: if you take more than the allowed number of sheets into an exam, then all of your sheets will be immediately confiscated.

The only other allowable materials that you can take into an exam are writing instruments and a calculator (see below for further details). Laptops, cell-phones and other electronic devices are not permitted.

(iii) Assignments

There are two assignments each worth 5% of your final grade. The assignments are due in at the start of classes 5 and 10. For each assignment, you will receive full credit if you have made a good-faith effort to answer all of the questions, you hand it in on time and you have included and signed Stern's Honor Code statement. Late assignments will not be accepted. Answers to the assignment must be your own and you are encouraged to acknowledge any help you have received on the front page of your assignment.

EXAM PREPARATION SESSIONS

In preparation for the midterm exam, I will be available for consultation and assistance on Friday 18 Jul and Friday 25 Jul from 5.30pm – 7.00pm in KMC 3-50. In preparation for the final exam, I will be available for consultation and assistance on Friday 1 Aug and Friday 8 Aug from 5.30pm – 7.00pm in KMC 3-50. These sessions provide an additional forum for questions and answers relating to any of the material covered in class and attendance is optional.

TEXT

The textbooks for this class are:

- (i) Bodie, Kane and Marcus, INVESTMENTS, McGraw-Hill/Irwin (“BKM”).
- (ii) STUDENT SOLUTIONS MANUAL to accompany Investments (“SSM”).
- (iii) Ross, Westerfield and Jordan, ESSENTIALS OF CORPORATE FINANCE, 5/e with Solutions, McGraw-Hill/Irwin (“RWJ”) – Custom edition – Chapters 4, 5 and 8 only.

A bundled copy of these three texts is available for purchase from the NYU professional bookstore. Alternatively, a copy is available for (short term) borrowing from the Course Reserves Desk, on Lower Level 2 of the Bobst Library at <http://library.nyu.edu/services/reserves.html>

The current edition of BKM is the 7th. We have been informed by the publishers that a new 8th edition will be available for purchase in June 2008. You may use either the 7th or the 8th edition in this class – I will advise readings for both.

OTHER TEACHING MATERIALS

Each class will be accompanied by a set of lecture slides and an exercise set. These materials are an integral part of the course. You are expected to take notes during class. The exercise sets are for self-study purposes and are designed to reinforce and or extend the concepts covered in class. Solutions not available in SSM or RWJ will be distributed to students. Caution: you should make a reasonable attempt to answer a question before looking at the solution. You may wish to form a study group to jointly work through the exercise sets and review the material in the lecture slides.

Reading of the *Wall Street Journal* or the financial sections of the *New York Times* is also encouraged.

CLASS WEBSITE

The class website is on Blackboard at <http://sternclasses.nyu.edu/>

A copy of the lecture slides and exercise sets will be posted in the Course Documents section of the website. I will distribute a copy of the teaching materials for class 1 at the start of the first class only. Thereafter, you should download a copy of the lecture slides and exercise set prior to each class. Important announcements will also be posted on the class website. You should also regularly check your email account. I will not be using the Discussion Board facility of the website.

CALCULATOR

You will need a calculator for this class. Financial calculators (such as the HP12C) are permitted. At a minimum, the calculator should have the standard operations (+, -, ×, ÷) and the inverse, exponential and natural log functions. It is your responsibility to learn how to use your calculator. The purpose of the calculator is to assist with calculations and it should not be used as a means of storing text or programming formulae.

HONOR CODE

You are responsible for maintaining Stern's code of conduct which mandates zero tolerance for cheating and plagiarism. Violations of the code of conduct will be prosecuted with a minimum penalty of failure for the course, as required by code of conduct rules. If you become aware of any violations of the code of conduct you must take whatever steps are necessary to stop the violators. On every assignment and exam you must include a signed statement at the top indicating that you adhered to the code of conduct. The statement is: “*I pledge my honor that I have not violated the Stern Student Code of Conduct in the completion of this exam/problem set.*”

CLASS ATTENDANCE AND BEHAVIOR

You are expected to attend each class and to arrive on time. In the event that you arrive late (or leave early) please do so quietly in order to minimise disruption to your fellow students. If you miss a class, you should in the first instance, talk to a fellow student (or member of your study group) who attended the class. Regarding general behaviour, students should conduct themselves with respect and professionalism toward faculty, students, and others present in class.

Please bring your name card with you to every class.

CLASS SCHEDULE

<i>Class</i>	<i>Date Section 71</i>	<i>Date Section 70</i>	<i>Date Section 0A</i>	<i>Topic</i>	<i>Reading *</i>	<i>Hand-in</i>
1	1 Jul	2 Jul	6 Jul (am)	Financial Markets, Instruments and Players	BKM: 1, 2, 3.1, 3.7, 4.1-4.3	-
2	3 Jul	7 Jul	6 Jul (pm)	Time Value of Money and Net Present Value	RWJ: 4, 5, 8	-
3	8 Jul	9 Jul	13 Jul (am)	Risk Aversion and Rational Decision Making	BKM: 5.3, 5.8, 6.1, 12.1 (pp396-400)	-
4	10 Jul	14 Jul	13 Jul (pm)	Diversification and Asset Allocation	BKM: 6, 7	-
5	15 Jul	16 Jul	20 Jul (am)	Equilibrium	BKM: 9, 8.1-8.2, 10.1, 13.3-13.4	Assign. 1
6	17 Jul	21 Jul	20 Jul (pm)	Equity Securities	BKM: 18	-
7	22 Jul	23 Jul	27 Jul (am)	Midterm Exam (90 mins) Arbitrage and Replication	- BKM: 10.2 (pp336-337), 12.1 (pp.400-404)	- -
8	24 Jul	28 Jul	27 Jul (pm)	Fixed Income Securities	BKM: 14, 16.1	-
9	29 Jul	30 Jul	3 Aug (am)	The Yield Curve and Interest Rate Swaps	BKM: 15, 23.5	-
10	31 Jul	4 Aug	3 Aug (pm)	Options	BKM: 20.1-20.4, 21.1-21.4	Assign. 2
11	5 Aug	6 Aug	10 Aug (am)	Forwards and Futures	BKM: 22	-
12	7 Aug	11 Aug	10 Aug (pm)	Final Exam (180 mins)	-	-

* The above reading list is preliminary and will be updated prior to commencement of the first class.