

**NEW YORK UNIVERSITY  
STERN SCHOOL OF BUSINESS**

**FOUNDATIONS OF FINANCIAL MARKETS  
C15.0002.03  
Spring 2009**

**Professor Yoram Landskroner**

Dates: Jan 20- May 14, 2009  
No Class on Mon, Feb 16 (*Presidents Day*)  
Mon, March 16- Sun, March 22 (*Spring Break*)

Class:  
Meeting Time: MW 3:30-4:45  
Office: KMC 9-98  
Office Hours: MW 5:00 pm- 6:00 pm  
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**SYLLABUS (Tentative)**

**What's the course about?**

This course covers the elements of financial markets, financial securities and how they are valued and traded. The perspective is that of the investment manager, responsible for the investment portfolios of financial institutions, such as insurance companies, banks, pension funds, mutual funds and personal trusts. We discuss several outstanding problems of investment management, including the definition of criteria of decision making under certainty and uncertainty, security valuation, performance measurement, and the asset mix decision.

**Texts**

Bodie, Kane and Marcus (BKM), *Essentials of Investments*, 7<sup>th</sup> edition, McGraw-Hill/ Irwin, 2008.

Ross, Westerfield and Jordan (RWJ), *Essentials of Corporate Finance*, 6th Edition, 2008. Selected chapters. CUSTOM PUBLICATION.

**Other Readings**

Other required readings will be distributed to the class.

To keep updated regular reading of the financial press: *Wall Street Journal*, *New York Times*, *Financial Times*, is highly recommended.

**Blackboard Information:**

Course material which includes PowerPoint slides of the lectures; assignments and solutions; announcements, and other material will be posted on the course site.

**Prerequisites**

C22.0103 Statistics for Business, V31.0002 or V31.0004 Economic Principles, C10.0001 Principles of Financial Accounting (co-requisite), and sophomore standing. Finance is quantitative and you will need to utilize material learned in prerequisite courses

**Grades, Exams, Problem Sets and Core Enhancement**

**Grades** will be based on a mid-Term exam (40%), a final exam (50%), and problem sets (10%).

Grades for this course will follow the Stern Grading Guidelines at the Undergraduate College (25-35% A's; 50-70% B's and 5-15% C's and below)

**Exams** The mid term and final exams are not cumulative. You must take them both. There will be no make-ups during the semester. The exams are in-class, multiple-choice with short explanations. They are closed book, but you can bring in one 8.5"x11" page of notes and should bring in your calculator. You may not enter any formulae or data in your calculator.

**Problem Sets** over the course of the semester about 8 problem sets will be assigned. They will be graded. To receive credit they must be handed in on time and must be legible handwritten originals (no faxes, no word processors nor photocopies). You must hand in your own work.

**Practice Problems:** it is highly recommended that you solve end-of-chapter problems in BKM, and RWJ. The Solution Manuals provide detailed solutions.

**Core Enhancement:** It is suggested that you study financial modeling using Excel by working through the text book: "Craig W. Holden, Excel Modeling and Estimation in the Fundamentals of Investments, 3rd Edition, Prentice Hall". You can do it at your own pace along with the lectures as a non-graded component of the course. This text is available in the bookshop. It is coordinated quite well with the Bodie Kane and Marcus text.

## **Calculator**

You will need a financial calculator that has present value, internal rate of return, log and exponential functions HP10BII (or HP12C) is suitable. You will need it for homework and exams (no laptop permitted in exams).

## **Course Policies**

- Class attendance is mandatory. A penalty of up to 10% of the final grade may be imposed for missing classes
- Students are expected to arrive to class on time and stay to the end of the class period.
- As this is a large class, please be respectful of other students. Inappropriate or abusive behavior will not be tolerated.
- Participation is an essential part of learning in this course. Students are expected to participate in all facets of classroom learning.
- All assignments are expected to be completed and handed in on time

## **Code of Conduct**

You are responsible for maintaining Stern's code of conduct, which mandates zero tolerance for cheating.

<http://www.stern.nyu.edu/uc/codeofconduct>

## **Qualified disability**

If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998-4980) and provide me with a letter from them verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

## **Course Outline\***

### Week 1

#### Basics of Investments

Overview of the Financial System  
Markets, Securities and Institutions

BKM: Ch. 1, 2, 3, 4.

### Weeks 2-3

#### Time value of Money

Interest rate calculations  
Net Present Value and Internal Rate of Return  
Applications

RWJ: Ch. 4, 5, 8 (pp. 230-235, 241-249, 251-254.)

Weeks 4-6.

Risk and Return

Decisions under Uncertainty  
Diversification and Portfolio Analysis  
International Diversification

BKM: Ch. 5 (116-133), 6 (149-164), 19 (621-649)

Weeks 7-8.

Capital Market Equilibrium

Capital Asset Pricing Model  
Multifactor Models  
Market Model and Estimation of CAPM

BKM: Ch. 5 (133-142), 6 (164-181), 7

MIDTERM EXAMINATION (October 20)\*

Weeks 9-10.

Equity Valuation

Relative valuation  
Dividend Discount Models  
Free Cash-Flow modes

BKM: Ch. 13

Weeks 11-13.

Bond Valuation

Bond Prices and Risks  
Term Structure of Interest Rates  
Managing Bond Portfolio- Duration and Immunization

BKM: Ch. 10, 11

Week 14

Options and Futures

Options Strategies and Valuation  
Futures

BKM: Ch. 15, 16, 17

\* The timing of the topics is subject to change; consider the dates as a tentative time table