

C15.0002.02
Foundations of Financial Markets
SPRING 2009
January 21, 2009 to May 4, 2009

Instructor

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Office Hours: TBD

Additional office hours will be held as needed and will be announced in class and in blackboard.

Class Time and Location

Monday and Wednesday 9:30 - 10:45 am, Location TBD
Additional review sessions will be held as needed and will be announced in class and in blackboard.

Description of the Course

This is the first course in finance for most students, and it gives an introduction to financial markets. We will learn the basics of financial securities, how they are valued and traded, and how to make optimal investment decisions with these securities. The main topics are portfolio selection, equilibrium asset pricing, arbitrage, fixed income securities, and derivatives. The course is rigorous and quantitative. Students are expected to understand and apply quantitative methods. Examples illustrate important real-world applications of the theory.

A tentative schedule is attached at the end of this document.

Blackboard

The course Blackboard will be the site for all course materials. <http://sternclasses.nyu.edu/webapps/login/>. All information relevant to the course will be put up here: powerpoint presentations, problem sets, solutions, sample exams, handouts. Announcements will be posted throughout the semester. Please ensure that you have access to the Blackboard and check it regularly.

Discussion Board & Emails

On the class's Blackboard site, there is a Discussion Board (under the heading "Communication"). I strongly encourage you to post your questions here *instead of emailing* me. Answering emails takes a long time and is inefficient. Many people have the same question. Also, your classmates may be able to help you. By using the discussion board, I will get to your questions faster, and other students can also answer questions. This makes the Q&A process run a lot smoother and, most importantly, *faster!*

Textbooks

1. (BKM) Bodie, Kane, and Marcus, “Essentials of Investments”, 7th edition
2. (S) Bodie, Kane, and Marcus, “Solutions Manual to Essentials of Investments”, 7th edition
3. (RWJ) Ross, Westerfield, and Jordan, “Essentials of Corporate Finance”, Custom Edition (includes Chapter 4, 5 and 8)
4. (H) Handouts - distributed in class

Prerequisites

Students should be comfortable with statistics, linear algebra and calculus. The course assumes no prior knowledge of finance.

Grading

There will be weekly assignments, a course project, a midterm exam and a final. The breakup is:

Assignments	10%
Project	15%
Midterm	30%
Final	40%
Class Participation	5%

Following departmental guidelines, the course will be graded on a curve. The distribution of grades will be approximately:

A	10%
A-	10 – 15%
B+	10%
B/B-	50 – 60%
C+/C/C-	10 – 15%
D/F	0 – 10%

Details follow.

Problem Sets: There will be a problem set assigned at the beginning of each topic. In general, they will be due when we begin the next topic. All homework should be handed in at the beginning of class. Problem sets are graded on a 1 to 3 scale. Please make a good-faith effort to answer all questions. If you are unable to fully answer a question, try to identify the source of your uncertainty (is it a general financial concept you don't fully understand? Is it a mathematical issue? etc.). Answers to the problem set must be your own, and must be handwritten. You are encouraged to acknowledge any help you received on the front page of your problem set solution. Late problem sets will not be accepted.

Project: The project will be assigned on March 10 and will be due at the beginning of the class on April 21. Details about the project will be discussed in class on March 10. A link with the project details will be put up on the Blackboard. The project is aimed to teach you how to get financial data from the internet and use it

to make investment decisions. You will be allowed to work in groups of two or three, but not more.

Exams: The midterm exam will be on March 5. The final exam is TBD. The exams will be based on material taught in class and on homework problems. The final exam is cumulative. You will be allowed one double-sided page of notes for the midterm and two double-sided pages of notes for the final exam. The sheets must be no larger than 8.5 inches by 11 inches. Sample exams will be distributed a few days before the midterm and final.

Study Group

It is highly recommended that you regularly review the readings and class notes in a study group. Don't wait until exam time to set up such a study group. By then it's too late. You are encouraged to work on the problem sets with your study group, but you must hand in your own answers.

Calculators

You need a calculator for this class. A financial calculator is not a requirement. All the problems in this class can be answered with a regular calculator.

Honor Code

You are responsible for maintaining Stern's honor code which mandates zero tolerance for cheating. Violations of the honor code will result in a minimum penalty of failure for the course as required by honor code rules. If you become aware of any violations of the honor code you must take whatever steps are necessary to stop the violators, including notifying me.

Classroom Civility

Your behavior should respect your classmates desire to learn. Try not to come late to class as it is disruptive no matter how quiet you are. If you carry a cell phone or any other type of audible alert device, turn it off before entering class. Please do not engage in side conversations during the lecture.

Schedule

(Asterisks indicate key issues)

Note: This schedule is tentative. Readings might be revised as we go through the material, Additional handouts will be distributed in class throughout the semester

Dates	Topic	Material
1. January 20	Introduction	
2. January 22	Overview of Investments	BKM: 1.1-1.5*, 3.1-3.7*, 2.1-2.5
3. January 27, 29	Time Value of Money and Return Measures	RWJ: 4*, 5.1-5.3*
4. February 3, 5	Risk and Return	BKM: 5.1*, 5.2*, 5.3*, 5.5* RWJ: 5.3*
5. February 10, 12	Diversification	BKM: 6.1*, 6.2*, 6.3*, 6.4*
6. February 17, 19	Equilibrium: The Capital Asset Pricing Model	BKM: 6.5*, 7.1*, 7.2, 7.3
7. February 24, 26	Efficient Market Hypothesis	BKM: 8*, 17.1*
8. March 3	Performance Evaluation	
March 5	Midterm	
9. March 10, 12	Project Discussion & Arbitrage	BKM: 7.5
March 17, 19	Break	
10. March 24, 26, 31	Equity Valuation	BKM: 12*
11. April 2, 7,9	Fixed Income Securities and Valuation	BKM: 9.1, 9.2, 9.3-9.4*,9.6*, 10.1*, 10.2, 10.3
12. April 14, 16	Options Markets and Valuation	BKM: 14.1*, 14.2*
13. April 21, 23, 28	Options Markets and Valuation	BKM: 15.1*, 15.2, 15.3*, 15.4
14. April 30	Last day of class	
TBD	Final	