

**Foundations of Finance (B01.2311) - Fall 2009  
(Subject to change)**

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**SYLLABUS**

**Acknowledgement:**

To ensure continuity with previous and future Foundations of Finance courses, much of the supplemental material was made available through the generosity of Professor Wm. Silber.

**Texts:**

1. (BKM) Bodie, Kane and Marcus, *Essentials of Investments*, 7th edition, Irwin, 2008.
2. (RWJ) Ross, Westerfield and Jordan, *Fundamentals of Corporate Finance*, *CUSTOM VERSION (includes chapters 4, 5 and 8)*.
3. (G) Garbade, *Securities Markets*, *CUSTOM VERSION*
4. (H) Handout Packet (Note: BRING THIS TO EVERY CLASS).
5. Solutions Manual for BKM is on reserve at Bobst's Reserve Room and at the Westchester campus.

**Prerequisites**

This is a core course that assumes no prior background in finance. However, you are expected to have an understanding of basic economic and statistical concepts beforehand. From economics, you should understand supply and demand curves, including how shifts in the curves change the equilibrium price. You will also need indifference curves from the core economics class. From statistics, you should understand mean, standard deviation, covariance and correlation as descriptive statistics. The course website contains a statistics primer that covers this material. By the third week of class, you will need probability statements based on the area under the normal curve. By the fourth week of class, you will need the regression coefficient as a summary statistic. This material was covered in your statistics core class but it is also summarized in the statistics primer.

**Before and After Book**

This pamphlet prepared by Professor Wm. Silber, distributed on the first day of class (via Blackboard), provides an outline of sub-topics covered in each lecture as well as a list of concept questions that relate to each topic. Use the pamphlet *before* reading the assigned material to set the stage and *after* to check your comprehension.

**Emails**

Check your email regularly for weekly outlines from me and other announcements

**Calendar**

Check the course calendar in the Handout Packet or in the course website for scheduled alterations in regular class meetings. In addition, the calendar lists dates for the mid term, final, and other deliverables.

**TA Review Sessions: TBD**

**Web References**

The course web site can be found under *courses* at [www.stern.nyu.edu/~mgriffit](http://www.stern.nyu.edu/~mgriffit).

A small group of websites appears in the outline to reference either real time data or educational tools that are especially relevant for a particular topic. Although the directions to the material are currently accurate they may change. You may need a few extra clicks to get to the right spot.

### **Grades and Exams**

The distribution of grades, as mandated by the finance department is as follows: A, A- : Between 20 and 25 percent of the class; C+ and lower: Between 10 and 15 percent of the class; B+, B, B-: the remainder. Grades will be based on a mid-term exam (42.5%), a final exam (42.5%) and problem sets (15%). The "Market Tracking Assignment" (see the next item in the Handout Packet) will form the basis of about 10% of the questions on each exam. Also see the discussion under **Classroom Responsibilities** below.

The mid-term and final are *not* cumulative. You must take them both. You must be present at the mid-term and final exam dates. *There will be no make-up exams during the semester.* If you miss any exam you will have to wait until the beginning of the next semester for a make-up.

### **Problem Sets**

A pamphlet with Problem Sets for the entire term will be distributed on the first day of class (via Blackboard). The problems are designed to provide numerical drill to complement the conceptual class discussions and are **NOT supposed to be representative of exam questions**. You must submit *handwritten answers* (no word processors or photocopies) to each set (I-IV), and to the Real Time Exercise, when they are due, as indicated in the course outline below. *Late submissions will not be accepted.* You will receive full credit (3% per set) if you have made a good faith effort to answer the questions, whether or not the answers are correct. Partial credit will *not* be awarded.

### **Calculator**

You will need a calculator that has net present value, internal rate of return, yield to maturity, natural logarithm and exponential functions. An HP12C is sufficient for this class. You are expected to learn how to use a calculator on your own. You will need it for homework and the exam (no laptops permitted at exams).

### **Group Study**

**You are strongly advised to set up study groups to review the course material each week.** You may also do your homework problems together. A minimum of three people is recommended for each study group. Try to include *at least* one non-finance major in your study group. This will broaden your group's perspective. Do not wait until exam time to set up your study group. By then, it is too late.

### **Honor Code**

You are responsible for maintaining Stern's honor code which mandates zero tolerance for cheating. Violations of the honor code will be prosecuted with a minimum penalty of failure for the course as required by honor code rules. As indicated above, you may work in groups on your homework problems but you must submit your own handwritten answers. The exams are closed book. You may bring to the exams only a writing implement and your calculator. In the event that your calculator is programmable you may NOT enter any formulae or data (e.g., associated with the market tracking assignment). If you become aware of any violations of the honor code you must take whatever steps are necessary to stop the violators.

## Classroom Responsibilities and Civility

**Approach each class as though you were attending an important business meeting – prepare, arrive on time, participate, but do not try to dominate. Arrange your affairs so that you do not leave the room during class (if you have a medical problem see me at the start of the semester).**

Here are some specific guidelines designed to promote a beneficial classroom experience:

**Class Participation:** Students learn from questions asked by other students as well as by answers from classmates, whether or not the proposed answers are correct. Therefore, you have a responsibility to come to class and participate in the discussions. I will encourage class participation to the best of my ability, turning to forced compliance only after friendly persuasion fails.

**No Late Seating:** Each lecture begins **exactly** on time. Latecomers disrupt the class no matter how quietly they enter. Therefore, once the lecture begins please do not try to enter the class. You will not be admitted. Watch the class on video if you cannot make it on time. Absence from class should not be a routine practice, however. Classroom participation is an important responsibility.

**Cell Phone Disturbances:** Turn off your cell phone, palm pilot or any other type of 'audible alert device' before entering class.

**Side Conversations:** Do not engage in side conversations during the lecture, even in a whisper. They are distracting to me and to your fellow students and will not be tolerated.

**No Laptops:** Laptops are not required in this class nor are they permitted during the lecture. They are distracting to your fellow classmates. If you must use a laptop for taking notes during class see me at the beginning of the semester.

**Failure to meet your classroom responsibilities may adversely affect your grade**

## COURSE OUTLINE

Note: A star (\*) next to a Handout entry means you must prepare this item for classroom discussion

### 1. *Overview and Market Structure* (2 Sessions)

BKM: Chapter 3; also skim Chapters 1, 2 and 4

H: Readings # 1\*, 2, 3\*

Web: Visit [www.island.com](http://www.island.com), click Products, Bookviewer, Java Viewer, enter a stock symbol, and watch it trade

### 2. *Present Value, Yields and Returns* (1 1/2 Sessions)

RWJ: Chapters 4, 5.

BKM: Section 1 in Chapter 5 and Section 4 in Chapter 5

H: Reading # 4\*, 5\*, 6\*, 7\*, 8

### 3. *Equilibrium One Period Yields* (1/2 Session)

BKM: Sections 3, 4 and 5 in Chapter 10 and Section 4 in Chapter 5 (again)

### 4. *Arbitrage and the Law of One Price* (1 1/2 Sessions)

BKM: Section 2 in Chapter 19 (exchange rate risk discussion)

H: Readings # 9, 10\*, 11\*, 12

## HAND IN PROBLEM SET I

### 5. *Portfolio Analysis*

#### a. *Two Risky Securities* (2 1/2 Sessions)

G: pp. 111-116, 122-131, 131-137, 145-155

BKM: Chapter 5 (Sec. 2, 3), Chapter 6 (Sec. 1, 2)

H: Readings # 13, 14\*, 15\*, 16\*, 17\*, 18\*

b. *Risk Free and Multiple Risky Securities (2 Sessions)*

G: pp. 160-164, 165-174

BKM: Chapter 5 (Sec. 5), Chapter 6 (Sec. 3, 4, 5)

H: Readings # 19\*, 20, 21\*, 22\*

Email: Open Portfolio Optimizer Program and experiment with it

6. *Capital Market Equilibrium (2 Sessions)*

G: pp. 179-189, 199-210, 174-176, 213-219

BKM: Chapter 7 (Sec. 1,2,3,4), Chapter 18 (Sec. 1)

H: Reading # 23\*, 24

**HAND IN PROBLEM SET II** (make a copy for yourself)

**MID-TERM EXAM (1 Session)**

7. *Introduction to Capital Budgeting (1 Session)*

RWJ: Chapter 8

H: Reading # 26\*

8. *Common Stock Valuation (1 1/2 Sessions)*

BKM: pp. 401-417

H: Readings # 27\*, 28

Web: Visit [www.yahoo.com](http://www.yahoo.com), click on finance, enter a stock symbol, look at 'profile' to view company characteristics

COLLECT DATA ON REAL TIME EXERCISE

**SUBMIT MARKET TRACKING CONTEST**

9. *Fixed Income Securities*

a. *Yield Calculations (1 1/2 Sessions)*

BKM: Chapter 10 (Sec. 2, 3, 4, and pp. 316-318) and Chapter 2 (Sec. 1)

H: Readings # 29\*, 30\*, 31\*, 32, 33

**HAND IN REAL TIME EXERCISE**

b. *Yield Curve and Forward Rates (2 Sessions)*

BKM: Chapter 10 (Sec. 6)

H: Readings # 34\*, 35, 36\*, 37\*, 38\*, 39

c. *Duration (1 Session)*

BKM: Chapter 11 (Sec. 1, 2, 3)

H: Readings # 40\*, 41, 42\*

d. *Swaps (1 Session)*

BKM: pp. 577-578

H: Readings # 43\*, 44, 45\*

e. *Risk and Tax Structure*

BKM: Chapter 20 (Sec. 3,4, 5), Chapter 2 (Sec. 2)

**HAND IN PROBLEM SET III**

10. *Options (3 1/2 Sessions)*

BKM: Chapters 16 (except pp.476-478), 17 (except Sec. 2)

H: Readings # 46\*, 47, 48\*, 49\*, 50\*, 51\*, 52

11. *Efficiency* (1 Session)  
BKM: Chapter 8  
H: Readings # 53

**HAND IN PROBLEM SET IV** (Make a copy for yourself)

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**FOR YOUR READING PLEASURE**

Peter Bernstein's *Capital Ideas* (Wiley, 2005) provides a wonderful overview of how the great ideas of finance arose. His book is the best way to appreciate the financial revolution of the past half century. Burton Malkiel's *A Random Walk Down Wall Street* (Norton 2003) is the only investment guide you will ever need. He sells nothing but sound advice. Roger Lowenstein's *When Genius Failed* (Random House, 2000) is a best seller about the best and the brightest in finance. Read it for the cautionary message. Professor Silber's book, *When Washington Shut Down Wall Street* (Princeton University Press, 2007) tells the story of how America's triumph over the financial crisis of 1914 launched the U.S. as a world financial power. Read it for perspective and for a compelling tale demonstrating the law of unintended consequences.

## Detailed Calendar

	<b>Saturday Class</b>	<b>Tuesday Class</b>	
9/26/2009 9/29/2009	Mkt Structure	Mkt Structure	
10/3/2009 10/6/2009	TVM	TVM	
10/10/2009 10/13/2009	Arbitrage	Arbitrage	<b>Hand-in Problem Set #1 Hand-in Problem Set #1</b>
10/17/2009 10/20/2009	Port Analysis	Port Analysis	
10/24/2009 10/27/2009	<b>Cancelled</b>	Equilibrium	<b>Hand-in Problem Set #2</b>
10/31/2009 11/3/2009	Equilibrium	<b>Mid-term Exam</b>	<b>Hand-in Problem Set #2</b>
11/7/2009	<b>Mid-term Exam</b>		
11/10/2009		Cap Budgeting	<b>Mkt Tracking Contest App.</b>
11/14/2009 11/17/2009	Cap Budgeting	Fixed Income	<b>Mkt Tracking Contest App.</b>
11/21/2009 11/24/2009	Fixed Income	<b>Cancelled</b>	
11/28/2009 12/1/2009	<b>Thanksgiving</b>	Yield Curve	<b>Hand-in Problem Set #3</b>
12/5/2009 12/8/2009	Yield Curve	Options	<b>Hand-in Problem Set #3</b>
12/12/2009	Options		

12/15/2009		<b>Final Exam</b>	
12/19/2009	<b>Final Exam</b>		