SYLLABUS

What's the course about?
This course is about financial markets and how they operate and about financial assets (securities) and how they are valued and traded. For most part the focus of this course is on the user of the financial markets: investors, investment advisers or managers (OPM), hedgers of risk.

Texts
Ross, Westerfield and Jordan (RWJ), Essentials of Corporate Finance, 4th Edition, 2005
Selected chapters.
CUSTOM PUBLICATION in bookstore

Other Readings

Prerequisites
Firms and Markets; Statistics and Data Analysis; Financial Accounting.
**Grades**
Will be based on the midterm (40%) a final exam (50%) and problem sets (10%). The final letter grades will follow the grading standards of the Department of Finance.

**Exams**
There will be a midterm and final (non-comprehensive) in-class exams. The format is multiple-choice questions with short explanations. The exams are closed book, but you can bring in one 8.5”x11” page of notes and should bring in your financial calculator. You may not enter any formulae or data in your calculator.

**Problem Sets**
Over the course of the semester about 9 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).

**Practice Problems:**
It is highly recommended that you solve end-of-chapter problems in BKM, The Solutions Manual provides detailed solutions.

**Calculator**
You will need a financial calculator that has present value, internal rate of return, log and exponential functions HP10B or TI BAII Plus (or HP12C, 17B) are suitable. You will need it for homework and exams (no laptop permitted in exam).

**Class Attendance**
You are expected to attend all classes. You are responsible for knowing what goes on in class, which may include material not covered in readings, modifications and announcements concerning the syllabus, assignments and exams.

**Honor code**
You are responsible for maintaining Stern’s honor code, which mandates zero tolerance for cheating.
Course Outline (tentative)

1. Elements of Investments
   Overview of the Financial System
   Markets, Securities and Investors
   BKM: Ch. 1, 2, 3

2. Time value of Money
   Interest rate calculations
   Net Present Value and Internal Rate of Return
   Applications
   RWJ: Ch. 4, 5, 8 (selected pages)

3. Risk and Return
   Decisions under Uncertainty
   Diversification and Portfolio Analysis
   BKM: Ch. 5 (selected pages), 6 (selected pages)

4. Capital Market Equilibrium
   Capital Asset Pricing Model
   Market Model and Estimation of CAPM
   Arbitrage Pricing Theory
   BKM: Ch. 5 (selected pages), 6 (selected pages), 7

5. Equity Valuation
   Relative valuation
   Dividend Growth Models
   Free Cash-flow modes
   BKM: Ch. 12

6. Bond Valuation
   Bond Prices and Yields
   Term Structure of Interest Rates
   Managing Bond Portfolio- Duration and Immunization
   BKM: Ch. 9, 10

7. Options and Futures
   Options Strategies and Valuation
   Futures and Swaps
   BKM: Ch. 14, 15, 16

8. Market Efficiency (TIME PERMITTING)
   Theory and Empirical Evidence
   BKM: Ch. 8