

C15.0002.001
Foundations of Financial Markets
SUMMER 2007
May 14, 2007 - June 22, 2007

Instructor:

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Office Hours: Tuesdays 3-4pm and Thursdays 3-4pm, in KMEC 9-175.

Additional office hours as needed will be announced in class.

Class Time and Location:

TR 12:00-2:55pm TISCH LC10

Course Web page

The course website is <http://pages.stern.nyu.edu/~adesouza/teaching/>

All information relevant to the course will be put up here: powerpoint presentations, problem sets, solutions, sample exams, handouts. Announcements will be posted on the web page throughout the semester. Please check it regularly.

Textbook

1. (BKM) Bodie, Kane, and Marcus, “Essentials of Investments”, 6th edition, 2007
2. (S) Bodie, Kane, and Marcus, “Solutions Manual to Essentials of Investments”, 6th edition, 2007.
3. (RWJ) Ross, Westerfield, and Jordan, “Essentials of Corporate Finance”, Custom Edition (includes Chapter 4, 5 and 8)
4. (CP) Course packet, handed out in class.

Warning

The course is intense and quantitative. What students are asked to absorb in a full semester of four months, you will be asked to absorb in a month and a half. You should be prepared to stretch yourself.

Prerequisites

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

¹This is the easiest way to contact me.

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%

Details follow.

Problem Sets: There will be a problem set assigned in the Tuesday session of each week. It will correspond to material covered that week - Tuesday and Thursday. The problem set will be due one week from the day assigned and all homeworks should be handed in by the end of the class. Problem sets are graded on a 1 to 3 scale, and you will be given full credit if you have made a good-faith effort to answer all of the questions, and if you hand in your answers on time. Late problem sets will not be accepted. Answers to the problem sets must be your own, and must be handwritten. The course website will contain suggested additional problems.

Project: The project will be assigned on Tuesday May 22nd. Details about the project will be discussed then. A link with the project assignment will be put up on the class web page.

Exams: The midterm exam will be on June 5th. The final exam is on June 21st. They will be based on homework problems and the material taught in class. The final exam is cumulative. You will be allowed one double-sided page of notes at the midterm and two double-sided pages of notes at the final exam. There will be no makeup exams. The only exception is if you have serious health problems and you are not able not take the midterm. In that case you should notify me a day in advance and the final exam will have 70% weight. Grades are not subject to discussion except for clear grading errors. Sample exams will be distributed a few days before the midterm and final.

The grading standard for the graduate and undergraduate core courses in the Finance Department is as below:

Grade	Percentage
A	10%
A-	10%-15%
B+	10%
B and B-	50%~60%
C+, C, C-	10%~15%
D, F	If you cheat or don't study at all.

Study Groups

You are encouraged to work in groups on the problem sets, but you must hand in your own handwritten answers. It is also highly recommended that you regularly discuss the readings in a study group.

Calculators

You need a calculator for this class. It is an advantage to have a financial calculator, but not a requirement. All the problems in this class can be answered with a regular one. Standard financial calculators include, for instance, Hewlett Packard 12C and 10B. You are supposed to learn how to use it on your own or with your group.

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.

Schedule

(Asterisks indicate key issues)

Note: This schedule is tentative. Readings might be revised as we go through the material, but there will be few such revisions. This version of the schedule was posted on May 14, 2007.

Class	Topic	Material
1. Tuesday May 15	Introduction and Overview of Investments	BKM: 1.1-1.5, 3.1-3.5*,3.6-3.8 CP: 1*
2. Thursday May 17	Principles of Security Valuation	RWJ: 4*, 5.1*, 5.2*, 5.3* CP: 2*, 3*, 4*, 5*, 6*, 7*
3. Tuesday May 22	Risk and Return	BKM: 5.1*, 5.2*, 5.3*, 5.5* RWJ: 5.3*
4. Thursday May 24	Diversification	BKM: 6.1*, 6.2*, 6.3*, 6.4* CP: 8*, 9, 10*, 11*
5. Tuesday May 29	Equilibrium: The Capital Asset Pricing Model	BKM: 6.5*, 7.1*, 7.2, 7.3
6. Thursday May 31	Efficient Market Hypothesis Performance Evaluation	BKM: 8*, 17.1*
7. Tuesday June 5	Midterm Arbitrage	BKM: 7.5 CP: 13*
8. Thursday June 7	Equity Valuation	BKM: 12* CP: 12*
9. Tuesday June 12	Fixed Income Securities and Valuation	BKM: 9.1, 9.2, 9.3-9.4*,9.6*, 10.1*, 10.2, 10.3 CP: 14*, 15*,16*, 17*
10. Thursday June 14	Options Markets and Valuation	BKM: 14.1*, 14.2* CP: 18*
11. Tuesday June 19	Options Markets and Valuation	BKM: 15.1*, 15.2, 15.3*, 15.4 CP: 19*, 20*
12. Thursday June 21	Final	