

**Foundations of Finance
B01.2311
Summer Semester II, 2007**

Instructor

Professor Anthony Lynch, KMEC 9-97, phone: (212) 998 0350, email: alynch@stern.nyu.edu.

Meeting Time

Section 70: Monday and Wednesday

6:00 pm-8:50 pm, KMEC 3-70.

Section 71: Tuesday and Thursday

6:00 pm-8:50 pm, KMEC 3-70. Please note that there will be NO CLASS Thursday July 5 and instead the last class will be Tuesday August 7.

A class calendar for the two sections can be found at the back of the syllabus. I will try to keep the sections synchronized as per the class calendar and you are welcome to attend any of the other section's classes, subject to the space constraint imposed by the size of room.

Course Content

This course is about financial markets and how financial assets (securities) are valued and traded. Most of this course is taught from the viewpoint of the user of a financial market: an investor, investment advisor or someone using the market to hedge risk. Although much of what we cover is relevant to corporate finance (that is, financial decisions within the firm), this area is not the primary focus of the course. Only rarely will we take the viewpoint of a corporate chief financial officer dealing with internal decisions. This perspective is covered in great detail in Corporate Finance, a separate subsequent course.

Grading

Your grade will be based on problem sets, a midterm exam and a final exam. The problem sets will be worth 10%. The midterm exam will be worth 36% and cover the first half of the course. The final will be worth 54% and cover the entire course. However, if your grade on the final is better than your midterm grade, the final will count for the entire 90%.

The curve for this course is the one established by the Finance Department for the introductory course (sorry): A (10%); A- (10%-15%); B+(10%); B and B- (50%-60%); C+,C,C- D and F (10%-15%); IP, IF ($\leq 5\%$).

Problem Sets

There are 5 problem sets but you are only required to hand in the first 4. Each of these 4 problem sets is worth 2½%. These problem sets are due in the 4th, 6th, 8th and 10th classes. For each of these problem sets, you will receive full credit if you have made a good-faith effort to answer all of the questions, you hand in the problem set on time and you have included and signed Stern's Honor Code statement. Late problem sets will not be accepted. Answers to the problem set must be your own. You are encouraged to acknowledge any help you received on the front page of your problem set solution. These questions are designed to reinforce concepts learnt in class. Finance involves

applying theory to solve problems and the only way to learn how to do this is by solving problems. This is why completion of the problem sets is worth 10%.

Exams

Both exams will be multiple choice with each question graded on a correct/incorrect basis. Both exams will be closed book except as follows: one 8.5" x 11" sheet with anything written on it can be taken into the midterm and two 8.5" x 11" sheets can be taken into the final. Be warned! If you are found with more than the allowed surface area of pages, all of your pages will be immediately confiscated.

The midterm exam will be in the first 90 minutes of the 7th class which is Monday July 23 for the Mon/Wed section and Thursday July 19 for the Tue/Thu section. The final exam will be in the final class which is Wednesday August 8 for the Mon/Wed section and Tuesday August 7 for the Tue/Thu section. Please keep the applicable dates for your section free. A makeup exam will only be given in an exceptional circumstance and at a time that is mutually convenient for you and the instructor.

Textbooks

Required:

Bodie, Kane and Marcus, *Investments*, 7th Edition, Irwin (B).

Solutions Manual (S).

Ross, Westerfield and Jordon, *Essentials of Corporate Finance*, 4th Edition, Chapters 4, 5, and 8, Irwin (R) (a custom edition of just these three chapters bundled together with B and S is available in the NYU Professional Bookstore).

Optional:

Elton, Gruber, Brown and Goetzmann, *Modern Portfolio Theory and Investment Analysis*, Sixth Edition, John Wiley and Sons.

Class Website

The class website is on Blackboard at <http://sternclasses.nyu.edu/> and all teaching materials are posted here. TA office hours and class announcements will be posted here also. Solutions to the problem sets will be posted no later than one day after the due date. The class web site also contains some finance links and articles. Finally, there is a discussion board where the TA and I will participate on a regular basis to answer your questions. You can turn to the discussion board to read your colleagues questions and the TA's and my answers to their questions.

Supplementary Material

Two booklets of lecture notes, problem sets, additional problems with solutions and practice midterm and final questions will be distributed in class. The first booklet will be distributed in the first class and will contain all the material needed for the midterm. The second booklet will be distributed in the first 2 weeks of class and will contain all other material for the course. The material in the booklets will also be available on the class website. The lecture notes are an integral part of the course. Reading of the *Wall Street Journal* or the financial sections of the *New York Times* is also encouraged.

Course Orientation

By its very nature, finance is mathematical and theory based. However, most of the theory covered in this course has immediate practical applications and implications. These will be emphasized as much as possible especially before introducing the theory so as to motivate why its being taught. Concepts will wherever possible be illustrated using real data that has been obtained from the Wall Street Journal or some other data service. Every effort will be made to highlight how the theory and concepts taught in this course would be used by an investor to make real decisions.

Help

The TA for this course is Andre Avzaradel who will teach a weekly review session. His office hours and weekly review session times will be announced in class. I will also offer regular review sessions and my office hours will also be announced in class. The class website is another source of help.

Miscellanea

Class Attendance:

You are responsible for knowing what occurs in class which may include material not covered in the readings, modifications to the syllabus and announcements concerning exams.

Use of E-mail:

I will often use E-mail to communicate with you, so you should try and check your E-mail regularly.

Calculator:

To solve financial problems, you will need a financial calculator. In addition to the standard operations (+, -, ×, ÷), it should be able to compute e^x and $\ln(x)$ (the exponential and natural log functions) and should be able to compute present and future values of simple sums and annuities. An ability to compute internal rates of return is sometimes useful but is not required. You are expected to learn how to use a calculator on your own. You will need it for homework and the exam (no laptops or palm pilots permitted in the exams).

Honor Code:

You are responsible for maintaining Stern's code of conduct which mandates zero tolerance for cheating and plagiarism. Violations of the code of conduct will be prosecuted with a minimum penalty of failure for the course, as required by code of conduct rules. If you become aware of any violations of the code of conduct you must take whatever steps are necessary to stop the violators. On every assignment and exam you must include a signed statement at the top indicating that you adhered to the code of conduct. The statement is: "I pledge my honor that I have not violated the Stern Student Code of Conduct in the completion of this exam/problem set."

Organization of the Course

<i>Class</i>	<i>Topic</i>	<i>Reading</i>
1	Overview	B Ch 1, skim Ch 2, 4
1-2	Time Value of Money	R Ch 4, 5
2	Equities: Characteristics and Markets	B Ch 2.3-2.4, 3.1-3.5, 3.8
2-3	Stock Positions and Portfolio Return	B Ch 3.6-3.7, 5.4
3-4	Portfolio Management	
	- Characterizing the return distribution	B Ch 5.4, 5.6, 7B, Handouts
	- Asset allocation between one risky and one riskless asset	B Ch 6 (partic.6.4)
	- Diversification and asset allocation with two risky assets	B Ch 7.1-7.3
	- Diversification and asset allocation with many risky assets	B Ch 7.4, 7A
4-5	Capital Asset Pricing Model (CAPM)	B Ch 9.1, 8.1-8.3, 9.2
5	CAPM: Performance Measures and Evidence	B Ch 24.1, 13.1
6	Multifactor Asset Pricing Models and Evidence	B Ch 10.1,10.6,10.5,13.2,13.3
6-7	Fixed Income Instruments: Definitions and Markets	B Ch 2.1-2.2, 14.1-14.3,14.5
7	Midterm Exam	
7-8	Fixed Income: Valuation	B Ch 15 (not 15.5)
	- Yields on Bonds, Yield Curves and No Arbitrage	
	- Forward Contracts	
	- Theories of the Yield Curve	
9	Fixed Income Portfolio Management	B Ch 16.1, 16.3
9	Derivatives: Definitions, Payoffs and Markets	B Ch 20.1-20.4, 22.1-22.3
10	Options: Valuation	B Ch 20.4, 21 (not 21.3)
10-11	Futures and Forward Contracts: Valuation	B Ch 22.4, 23 (not 23.3-23.5)
11	Valuation Models and Intro to Capital Budgeting	B Ch 18; R Ch 8
11	Market Efficiency	B Ch 11.1-11.2, skim 11.3-11.4
12	Final Exam	

Calendar of the Course

Month	Monday Section 70 KMEC 370	Tuesday Section 71 KMEC 370	Wednesday Section 70 KMEC 370	Thursday Section 71 KMEC 370			
	25	26 Class 1	27 Class 1	28 Class 2	29	30	
July							1
	2 Class 2	3 Class 3	4 NO CLASS	5 NO CLASS	6 AA: R1 6-8	7 AA:R1 1-3	8
	9 Class 3	10 Class 4 PS 1 Due	11 Class 4 PS 1 Due	12 Class 5	13 AA: R2 6-8	14 AA: R2 1-3 L:MR 3-4	15
	16 Class 5	17 Class 6 PS 2 Due L:MR 9-10	18 Class 6 PS 2 Due L:MR 9-10	19 Class 7 Midterm	20 AA: R3 6-8	21 AA: R3 1-3 L:MR 3-4	22
	23 Class 7 Midterm	24 Class 8 PS 3 Due	25 Class 8 PS 3 Due	26 Class 9	27 AA: R4 6-8	28 AA: R4 1-3	29
	30 Class 9	31 Class 10 PS 4 Due					
August			1 Class 10 PS 4 Due	2 Class 11 L:FR 9-10	3 AA: R5 6-8	4 AA: R5 1-3 L:FR 3-4	5
	6 Class 11 L:FR 9-10	7 Class 12 Final L:FR 6:30-7:30	8 Class 12 Final				

Availability of Andre Avzaradel

Office Hours

Andre will be available in the Teaching Assistance Center in K-MEC 7-158 at the following times:

Day	Time	Dates
Mon	5:30-6:00	2 Jul - 6 Aug
Tue	5:30-6:00	3 Jul - 7 Aug
Wed	5:30-6:00	11 Jul - 8 Aug
Thu	5:30-6:00	28 Jun- 2 Aug
Fri	8:00-9:00	6 Jul - 3 Aug
Sat	11:00-1:00	30 Jun - 4 Aug

Contact Information

Andre can also be reached at the following email address: andreavza@yahoo.com
He will also check the discussion boards on the class websites daily and answer any questions that have been posted.

Review Sessions

Review	Times		Material Covered
1	Fri 6 July 6-8	Sat 7 July 1-3	Lectures 1 and 2
2	Fri 13 July 6-8	Sat 14 July 1-3	Lectures 3 and 4
3	Fri 20 July 6-8	Sat 21 July 1-3	Lectures 5 and 6
4	Fri 27 July 6-8	Sat 28 July 1-3	Lectures 7 and 8
5	Fri 3 Aug 6-8	Sat 4 Aug 1-3	Lectures 9 and 10

Availability of Anthony Lynch

Office Hours

Day	Time	Dates
Mon	9:00-9:30	After class
Tue	9:00-9:30	After class
Wed	9:00-9:30	After class
Thu	9:00-9:30	After class
Fri	5:30-7:30	29 Jun - 3 Aug
Sat	4:30-6:30	14 Jul, 21 Jul, 4 Aug
Sun	4:30-6:30	15 Jul, 22 Jul, 5 Aug

Review Sessions

Review	Section	Times	
Midterm	Mon/Wed	Wed 18 Jul 9:00-10:00	Sat 14 Jul 3:00-4:00
	Tue/Thu	Tue 17 Jul 9:00-10:00	Sat 21 Jul 3:00-4:00
Final	Mon/Wed	Mon 6 Aug 9:00-10:00	Tue 7 Aug 6:30-7:30
	Tue/Thu	Thu 2 Aug 9:00-10:00	Sat 4 Aug 3:00-4:00