

Syllabus: Foundations of Financial Markets

Course Number C15.0002.02 – summer II 2005

New York University, Stern School of Business

Professor

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Office Hours

- Tuesday 3:00-4:00
- Thursday 3:00-4:00
- By appointment

Venue: LC9; Time: TTh 12:00-2:55

Teaching Assistants

There will be no TAs for this class.

Course Topics

The main topics of the course are portfolio selection, equilibrium asset pricing, arbitrage, fixed income securities, and derivatives. The course is rigorous, and students are expected to be able to understand and apply quantitative methods. Examples illustrate important real-world applications of the theory.

Course Objectives

- To give you the capacity to understand the theory and apply, in real world situations, the techniques developed in modern finance to value securities.

Motto for class: If it cannot be applied, who cares?

- To give you the big picture of financial markets so that you can understand how things fit together.

Motto for class: You can forget the details, but don't miss the story.

First Principles

- Investors prefer more to less.
- Investors are risk-averse.
- Money paid in the future is worth less than the same amount today.
- Financial markets are competitive.

Roadmap (see Course Overview for details)

- Financial Instruments and Markets: Session 1
- Time Value of Money: Session 2-3
- Portfolio Selection: Sessions 3-4
- Equilibrium Asset Pricing: The Capital Asset Pricing Model: Sessions 5
- Market Efficiency, Frictions, and Anomalies: Session 6
- Equity Valuation: Session 7
- Arbitrage: Session 8
- Fixed Income Securities: Sessions 8-9
- Derivative Securities: Sessions 10-11

Core Enhancement

CE is an integral part of the class. CE's goal is to introduce you to financial problem solving using Excel. There are no classes per se; it is based on individual study. I will be available to answer any questions. There is one assignment due before the final exam.

Class Material

I. **Lecture Notes** are handed out each class and will be available as PDFs on Blackboard.

II. Textbooks

1. Bodie, Kane, and Marcus, "Essentials of Investments."
2. "Solutions Manual for use with Essentials of Investments."
3. Ross, Westerfield, and Jordan, "Essentials of Corporate Finance," Custom Edition.

III. **Handouts** are included in your course packet. I will point out when they contain "need to know" information and when they are useful to enhance your understanding of the concepts discussed in the class.

Blackboard

We will use the web-based software package "Blackboard" in this course. It can be accessed through your browser at <http://sternclasses.nyu.edu>. If you do not have a password for Blackboard, go to <http://start.nyu.edu> to set one up. Blackboard is a part of the course, and you are responsible for any information posted there.

Office hours, readings, problem sets, solutions, and announcements will be posted on Blackboard throughout the semester so please check it regularly.

Problem Sets

There will be 5 problem sets. You will be rewarded full credit on the problem sets if you have made a good-faith effort to answer all of the questions, and if you hand in your answers on time. Problem sets are due at the beginning of class. Late problem sets will not be accepted. Answers

must be your own, and must be handwritten. Also, the course overview contains suggested additional problems.

Exams

The course has a midterm and a final exam. The final exam is based on the whole material covered. You will be allowed one double-sided page of *handwritten* notes at the midterm and two double-sided pages of *handwritten* notes for the final exam. To prepare for these exams you should (i) review the key issues discussed in the class and in the readings, (ii) review the problem sets that you handed in, (iii) look at the suggested problems and the concept checks in the book, and (iv) do the sample exams.

Grading Matters

- Grades will be based on the final exam (45%), midterm exam (30%), problem sets (15%), and core enhancement assignment (10%).
- I will follow Finance Department grading policy found [here](http://w4.stern.nyu.edu/finance/academic.cfm?doc_id=4007) (http://w4.stern.nyu.edu/finance/academic.cfm?doc_id=4007):
 - A: 20-25%
 - B: 60-65%
 - C,D & F: 10-15%

Rules of Engagement

- Rules of group work:
 - 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.
- Rules on individual work
 - All exams are strictly individual work.
 - There will be no make-up exams. If you miss a PS/exam due to ill health, the grade will be redistributed over the remaining part of the course.
- I will be the grader, and I do make mistakes. If I screw up, bring it to my attention and I will fix it.
- Rules on Participation
 - All participation is welcome.

Calculators

You need a calculator for this class. It is an advantage to have a financial calculator, but not a requirement. All exercises can be solved using a regular calculator.