Economics 282
Fall 2011
Instructor: Pavel Kapinos
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TuTh 1:15-3:00
Willis 211
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Office hours: We 2-4; Tu 3-5; appt

Syllabus for Investment Finance:

Required Text: Bodie, Zvi, Alex Kane, and Alan Marcus (2008). Investments. McGraw-Hill/Irwin, 8th ed. Note that if you are interested in acquiring an earlier edition, you should limit yourself to either 6th or 7th editions and will have to check the reading assignments with your classmates or instructor to ensure that you read the relevant material, since there are some differences in chapter and page numbering across editions.

Class: The primary objective of this course is to investigate various aspects of modern investment theory and develop basic techniques for applying this theoretical framework to the real-world data. Students are expected to be familiar with the basic features of Excel® by the end of the first week of the course. Competence in elementary statistics is required by Week 4. Problem sets will be a combination of theoretical questions and applied exercises, whereas the exams will primarily focus on theoretical issues and methodological tools. Class participation and feedback on the pace of the course are more than welcome.

Grading: Your course grade will be based on two midterms (first—20%, second—25%), cumulative final (30%), 7 problem sets (15%), and class participation (10%). Complaints about apparent grading errors will be considered, but requests for "extra credit" or other special consideration in assigning grades must regrettably be ignored. Problem sets covering the material for a given week will be posted by midnight on Thursday of that week and will be due at the beginning of class the following Thursday. Exceptions to this rule will be problem sets that are due during Weeks 4, 8, and 10—they will be due on Tuesdays of that week. Assignments that are turned in late will be penalized at the rate of 25% for every 6 hours past the deadline. Midterm I will take place in class on Thursday, October 6; midterm II will take place in class on Thursday, November 3; the final will take place on Saturday, November 19 at noon.

Outline: This is a very rough synopsis of our agenda for the term. Note that all lecture notes will contain specific references to textbook materials. The course is divided into five major parts:

I. Introduction and Overview: We will discuss the primary objectives of the course and tools that are necessary to meet them. We will briefly overview the nature of interest rates, their determination, and the roles of the main players in financial markets. A summary of the main substantive issues and stylized facts will be provided.

II. Fixed-income Security Management: We will spend some time discussing the nature and determination of interest rates in the economy, their term structure, and their implications for bond management.

III. Security Analysis: We will briefly review the theoretical and practical issues for valuation of individual stock securities.

IV. Portfolio and Asset Pricing Theories: This will be the longest and the most important part of the course, with very broad methodological issues and theoretical implications that should enhance your broad economic knowledge and intuition. We will study how assets can be combined into portfolios and what objectives investors may want to pursue in doing so. We will also look at alternative models of asset pricing that serve as the foundation for the contemporary investment theory.

V. Derivatives: The inherent market uncertainty poses significant risks for the value of financial assets. Hence many investors choose to safeguard—or hedge—against these risks using a variety of financial instruments. Because such instruments are tied to the underlying financial assets, they are called derivatives. We will primarily focus on one type of derivatives: options.