

Spring 2016

ECON 457
Financial Markets

TTH, 4:00 – 5:50
GFS 118

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Office Hrs: Tuesdays 12:00-1:30

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Course description

This course serves as your introduction to financial markets and investment process. It provides a foundation for understanding financial markets and financial securities, such as stocks, bonds and derivatives, and acquiring knowledge for making sound investment decisions using financial markets. Interest rates and asset prices are analyzed theoretically using a general equilibrium model as well as from a more practical perspective. The objective of this course is to help student understand (1) how security markets function; (2) the trade-off between risk and return; and (3) how to develop appropriate investment strategies. It covers fundamental principles related to investment analysis and portfolio management. While it is important for you to note that this course could be incredibly valuable for purposes of managing your personal portfolio, it does not address the details of individual security valuation and selection.

Learning Objectives

- Explain Investment, Securities and Securities Markets
- Solve General equilibrium models with financial assets
- Explain the relation between risk and return
- Explain the theory of Optimal portfolio selection
- Discuss Asset pricing models
- Explain different level of Market efficiency and its implications
- Discuss Portfolio Performance evaluation
- Derive forward interest rates from yield curves, Derive price of bonds under uncertainty
- Discuss different derivatives, their respective payoff portfolio and price

Prerequisite:
Econ 303

Required Materials

“Investments” 10th Edition by Bodie, Kane and Marcus

Lecture Notes:

In order to reduce your note-taking, lecture notes will be available on the class web-site. Note: these lecture notes are a very poor substitute for actually attending class – the notes that are posted on the website don't contain any solutions.

Homework

All problem sets will be posted on the Blackboard. I will announce them in class when they are posted on the Blackboard, however, you are ultimately responsible for periodically checking the system to see whether you have work that is due. Each individual must submit their own entry, however, I encourage you to collaborate and work in groups. Detailed solutions will be posted on the web-site after the homeworks are collected. No late homeworks are accepted, **EVER!**

Exams

It is your responsibility to show up on time for the exams. You may not make-up any exams after the scheduled exam dates unless for a valid reason such as illness (written proof required; a job interview is not a valid reason). There will be two mid-term exams and one cumulative final.

Grading

Midterm1: 30%, Midterm2: 30%, Final: 30%, Homework:10%. To calculate final grades I will take a weighted average of exams and homework grades and assign letter grades.

F < 59 ≤ D- < 62 ≤ D < 66 ≤ D+ < 69 ≤ C- < 72 ≤ C < 76 ≤ C+ < 79 ≤ B- < 82 ≤ B < 87 ≤ B+ < 90 ≤ A- < 93 ≤ A.

Topics

Week	Topic
Jan 11	Introduction, Financial Securities
Jan 18	Securities Markets, Mortgage securities
Jan 25	Investment Companies
Feb 01	General Equilibrium Models
Feb 08	Midterm Exam on Feb 9 th , GEM
Feb 15	Time Value of Money
Feb 22	Asset allocation
Feb 29	Risk and Return
Mar 07	Efficient Diversification and Optimal Portfolio
Mar 14	Spring Recess
Mar 21	Capital Asset Pricing Theory, Review
Mar 28	Midterm Exam on March 29 th , Market Efficiency
Apr 04	Portfolio Performance Evaluation
Apr 11	Fixed income securities
Apr 18	Yield curve, Forward interest rates
Apr 25	Uncertainty and asset pricing, Review
May 5	Final Exam, 4:30 -6:30 p.m.

Work Environment and Attendance Policy

- Endeavor to arrive on time.
- Turn cell phones, etc. off.
- In deference to those around you, refrain from talking.
- I will never end late on purpose, thus, don't pack up early.
- I take all forms of academic dishonesty very seriously because it damages the reputation of the school. I will report any such behavior to the Dean.

Statement on Academic Conduct and Support Systems

Academic Conduct

- Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Section 11, Behavior Violating University Standards <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the Office of Equity and Diversity <http://equity.usc.edu/> or to the Department of Public Safety <http://capsnet.usc.edu/departement/departement-public-safety/online-forms/contact-us>. This is important for the safety whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. The Center for Women and Men <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage sarc@usc.edu describes reporting options and other resources.

Support Systems

- A number of USC’s schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the American Language Institute <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students. The Office of Disability Services and Programs http://sait.usc.edu/academicsupport/centerprograms/dsp/home_index.html provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, USC Emergency Information <http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.