

Econ 175: Financial Investments

WebCT course page:

<https://webct6web.ucsd.edu/webct/logonDisplay.dowebct>

Class Time:

Monday, 5:00 PM - 7:50 PM in Center Hall 101 (see weekly schedule)

Problem Sessions:

Thursday, 5:00PM – 7:50 PM (see weekly schedule) Center Hall 115

TAs and Office Hours:

Professor Komunjer, Monday 4PM - 5PM in ECON 226
Ayelen Banegas, Tuesday 1:30 PM - 3:00 PM in SH 139
Meng Huang, Wednesday 12:30 PM - 2:00 PM in SH 227
Hiroaki Kaido, Friday 3:00 PM -4:30 PM in SH 232

E-mail Policy:

If you have questions about class material/lecture notes/problem sets or any other comments/suggestions related to the class, you can e-mail us at econ175@ucsd.edu. We shall do our best to respond to you promptly. Please be advised that we created the problem sessions and office hours so we can answer your important and immediate questions in person.

Required text:

Investments, by Zvi Bodie, Alex Kane and Alan J. Marcus, Irwin McGraw-Hill.

Recommended texts:

Investments, by Charles P. Jones, John Wiley & Sons, Inc.
Options, Futures and Other Derivatives, by John C. Hull, Prentice Hall.

Overview:

This course is an introduction to financial markets and the corporate management. The aim is to provide a basic understanding of the important financial assets available in the capital markets as well a basic knowledge of corporate financial management problems. The primary goal of this course is to impart the knowledge to allow you to intelligently solve practical business problems and/or pursue with more advanced studies in finance. To achieve this goal, it is crucial that you have a sound understanding of finance theory. As such, the course will be theoretical in nature, often requiring rigorous quantitative analysis.

Pre-requisites:

Econ 120A - Econometrics

A good knowledge of probability theory and statistics is essential for understanding finance. All Econ 175 students are expected to be familiar with notions such as: random variable, stochastic process, filtration, martingale, distribution function, expectation, variance, covariance. For those of you who hesitate about any of the above, make sure you read the Probability Theory Review (c.f. lecture notes for Econ 175). Alternative reference is Lectures in Elementary Probability Theory and Stochastic Processes by Falmagne, Jean-Claude, McGraw-Hill, 2003, ISBN: 0072448903.

An introductory course in Economics is strongly recommended though not officially required as a pre-requisite for Econ 175. Students not familiar with microeconomic concepts such as: consumer choice, classical demand theory, production, choice under uncertainty, competitive markets or general equilibrium under uncertainty are advised to revise their course choice strategy and/or do some intensive reading in Microeconomic Theory at the beginning of the course (e.g. Ch 1-6; 10; 19 in Microeconomic Theory by Andreu Mas-Colell, Michael D. Whinston and Jerry R. Green, Oxford University Press, 1995, ISBN: 0195073401).

Additional material:

Every participant should have a scientific calculator performing basic mathematical operations at her/his disposal. No specific financial calculator is required for this course.

Readings:

You should always reinforce the lectures by using the suggested textbook material. You will notice that some important topics will be covered in great detail in class (e.g., CAPM, options). In this case the textbook readings simply reinforce the lectures. Since time does not allow us to cover most topics in this way, the suggested textbooks present some of the material that is not covered during lectures. You are responsible for all the assigned material covered in the lecture notes, regardless of whether I have time to cover it in class. Reading ahead is encouraged, as it will aid your understanding of the material presented in class. Re-reading after class is also encouraged, as it will help solidify the new concepts just presented.

Problem Sessions:

The problem sets related to the covered material will be worked during the problem sessions of the week they are presented in class. Participation in problem sessions is not compulsory though strongly advised as:

- (1) your TA will cover some of the material not presented in class,
- (2) you will be solving problem sets which are closely related to the contents of your midterm/final exam,
- (3) you can ask questions related to the problem set in class.

Additional problems can be found at the end of every chapter of the recommended textbooks. If you are at all concerned about this class, I strongly suggest that you always participate in the problem sessions.

Exam and Grading Policy:

The midterm and final exams must be taken on the scheduled dates. Both exams are graded out of 100 points—your letter grades are curbed. In case of absence during an exam, you will be assigned 0 points for this exam. The only exceptions are absences dues to:

- (1) officially sanctioned university events;
- (2) unforeseen and officially documented illness, accident or family crisis.

The midterm exam is in—class and is 2h long; the final exam is a 3h exam. No textbooks/lecture notes are allowed during midterm/final exam. However, you may use a hand-written 1 (one) page single—sided “cheat-sheet” for your midterm exam; for your final exam, you may use a hand—written 1 (one) page double—sided “cheat-sheet”.

Midterm Exam: **Monday, October 30, 5:00 PM – 7:00 PM**
Final Exam: **Monday, December 04, 7:00 PM – 9:59 PM**

Your final grade will be determined by your performance on the midterm exam and the final exam. The actual formula according to which you grade is determined is:

$$\text{Max}\{(40\% \text{ of Midterm Exam} + 65\% \text{ Final Exam}), (100\% \text{ Final Exam})\}$$

Weekly Schedule

WEEK	SESSION	DATE	COURSE TITLE	PROBLEM SET
WEEK 1	Session 1:	Monday, Sep 25	Introduction to the Financial Environment	n/a
			Financial Markets	
WEEK 2	Session 2:	Monday, Oct 02	Financial Instruments	n/a
			Fixed Income I	
WEEK 3	Session 3:	Monday, Oct 09	Fixed Income – An Application	Problem Set 1
			Fixed Income II	
WEEK 4	Session 4:	Monday, Oct 16	Options I	Problem Set 2
			Options II	
WEEK 5	Session 5:	Monday, Oct 23	Options III	Midterm Review
			Options IV	
WEEK 6	Session 6:	Monday, Oct 30	Midterm exam	n/a
WEEK 7	Session 7:	Monday, Nov 06	Portfolio Choice Theory I	Problem Set 4
			Portfolio Choice Theory II	
WEEK 8	Session 8:	Monday, Nov 13	Portfolio Choice – Application	Problem Set 5
WEEK 9	Session 9:	Monday, Nov 20	CAPM I	Problem Set 6
			CAPM II	
WEEK 10	Session 10:	Monday, Nov 27	CAPM III	Final Review
			Market Efficiency	
WEEK 11	Final exam:	Monday, Dec 04	7:00 PM – 10:00 PM.	n/a