

ECON435.0201

Financial Markets and the Macroeconomy Summer 2007

Lectures: M & W 6:30–9:50pm
Tydings 1114
O.H.: M 5:30–6:30pm or by appointment

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Introduction

The purpose of this course is to offer a good understanding of financial markets and instruments (including derivatives), with a particular emphasis on evaluating and pricing financial assets. At the end of the course, you should be able to read the tables in financial newspapers and to use the various models covered to estimate the “correct price” of financial assets.

Textbooks

The “required textbook” for this course is rather pricey and I don’t really require you to buy it. If you really want to buy it, though, an older edition would work just fine. The edition I will use for the course is

Investments by Zvi Bodie, Alex Kane and Alan J. Markus, 6th Edition, McGraw-Hill Irwin (ISBN: 0072861789)

A very useful book for understanding financial newspapers and tables (not required, but highly recommended) is

Standard and Poor’s Guide to Money and Investing by Virginia B. Morris and Kenneth Morris, 1st Edition, McGraw-Hill (ISBN: 0976474980)

Course website

All course-related material (lecture notes, problem sets, solution sets, practice exams) will be posted at <http://www.econ.umd.edu/~trandafi/econ435>.

Lectures

The lectures are self-contained and the lecture notes, handouts, problem sets and practice exams should be all the necessary material to prepare for the exams.

Examinations, problem sets and grades

50% of the grade will be determined by a **comprehensive** final exam, on Wednesday, August 22, from 6:30–8:30pm, in the regular lecture room (Tydings 1114). There will also be one midterm, counting for 30% of the grade, on Wednesday, August 1, from 6:30–8:00 pm, in the regular lecture room (Tydings 1114). The other 20% will come from four problem sets, due one week from the date they were handed out, at the beginning of the class. Late problem sets will have 50% of the points taken off, and problem sets handed in after the solutions were posted on the website will receive zero credit. The problem sets will be graded *on accuracy* and will be returned one week from the date due.

You are not responsible for material not covered in the lectures. Before each exam, you will be provided with practice questions for the material covered.

You are required to take all examinations. Make-ups will be provided only in the cases for which the University allows it. Also, you need my permission to take the make-up. Make-ups will be scheduled, if necessary, one week after the initial exam was given.

Calculators

The use of calculators is required during the course, as you will need to compute several formulas and equations. Therefore, only simple *non-programmable* calculators are allowed during exams.

Tentative schedule

Week 1	Math Review and Introduction (BKM Appendix A) Financial markets, institutions and instruments (BKM ch. 1–2) <i>PS1 handed out</i>
Week 2	Financial markets, institutions and instruments (BKM ch. 3–4) Portfolio Theory (BKM ch. 6) <i>PS1 due, PS2 handed out</i>
Week 3	Portfolio Theory (BKM ch. 7–8) Capital Asset Pricing Model (BKM ch. 9) Review for the midterm <i>PS2 due</i>
August 6	Midterm (6:30–8:00pm, in Tydings Hall room 1114)
Week 4	Index Models (BKM ch. 10) <i>PS3 handed out</i>
Week 5	Arbitrage Pricing Theory (BKM ch. 11) Efficient Market Hypothesis (BKM ch. 12) Options and Option Pricing (BKM ch. 20, 21) <i>PS3 due, PS4 handed out</i>
Week 6	Review for final exam <i>PS4 due</i>
August 22	Final exam (6:30–8:30pm, in Tydings Hall room 1114)