

Econ 363: The Economics of Investment and Finance - I
Fall Semester 2012-13

Instructor: Tareena Musaddiq
Email: tareena@lums.edu.pk

Course Description

This course is designed to introduce students to the concept of financial instruments, and the process and analysis of investment in financial markets. Both the theory and practice of investment decisions, and the diverse securities used as investment tools to implement those decisions, will be addressed in this course. An introduction to modern tools of investment such as options and futures will be made, though a complete treatment is beyond the goals of this course. Students will also be given an overview of risk management and the basic hedging techniques.

The primary focus of this course is the relationship between risk and return, and how this relationship determines an optimal investment decision according to modern portfolio theory and its extensions. Real world applications will be discussed as often as possible.

Pre requisites: Principles of Microeconomics , Principles of Macroeconomics and Statistics.

Main text:

“Investments”, Zvi Bodie, Alex Kane and Alan J. Marcus, *6th Edition, McGraw-Hill Irwin (2005)*

Other texts:

“Options, Futures, and Other Derivatives”, 7th Edition, John C. Hull, Prentice Hall (2009)

Grading Scheme:

Quizzes: 25%

Mid Term: 35%

Final: 40%

Session	Topics	Reading
1	Interest rate and discounting, determination of interest rates, HPR Time Value of money, Concept of PV,	BKM Ch 5
2	Investment Environment, Financial Markets and Instruments	BKM Ch 1,2
3	Discounted Cash Flow , Pay back and IRR(limitations of IRR)	Class notes
4	The Single Period Investment Consumption Model: Fisher Separation Theorem	Class notes
5	Risk and return , risk aversion, and portfolio theory	BKM Ch 6
6 & 7 Quiz 1 in session 6	Capital allocation between the risky and risk free asset Portfolio mean and variance	BKM Ch 7
8 & 9	Portfolio Optimization	BKM Ch 8
10 & 11 Quiz 2 in session 10	Capital Asset Pricing Model and Empirical testing	Readings handed out
12 & 13	Index Models	BKM Ch 10

14 Quiz 3 in session 14	Arbitrage Pricing Theory and multifactor models of risk and return	BKM Ch 11 + class notes
15	Mid-Term	
16	Bond Prices and yields	BKM Ch 14
17 & 18	The term structure of interest rates	BKM Ch 15
19 & 20	Managing Bond portfolios	BKM Ch 16
21	Equity valuation	BKM 18
22 & 23 Quiz 4 in session 22	Options markets : Introduction	BKM Ch 20
24 & 25	Option valuation	BKM Ch 21
26 & 27	Futures and swaps	BKM Ch 22 and 23
28	Review and Quiz 5	