

Fall 2022

ECON 457
Financial Markets

TTH, 4:00 – 5:50
THH 212

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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
- 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

Textbook

“Investments” 12th Edition by Bodie, Kane and Marcus

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 homework is collected. No late homework is accepted, **EVER!**

Quizzes:

There is going to be regular announced or unannounced quizzes in class based on the material discussed immediately before the quiz.

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 5%, Class Quizzes:5%. 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	Chapters
Aug 22	Introduction, Financial Securities	1,2
Aug 29	Financial Securities	2
Sep 5	Securities market	3
Sep 12	Investment Companies	4
Sep 19	General Equilibrium Models	Notes
Sep 26	Midterm Exam 1: Sep 27 th , GEM	Notes
Oct 3	Risk and Return	5
Oct 10	Asset allocation	6
Oct 17	Optimal Portfolio	7
Oct 24	Index Models, Review	8
Oct 31	Midterm Exam 2: Nov 1 st , Capital Asset Pricing	9
Nov 7	Capital Asset Pricing, Market Efficiency	9,11
Nov 14	Fixed income securities	14
Nov 21	Term Structure of Interest rate	15
Nov 28	Term Structure of Interest rate, Equity Valuation	15,18
Dec 8th	Final Exam, Thursday 4:30 – 6:30	

Work Environment and Attendance Policy

- Endeavor to be on time.
- Turn cell phones off.
- In deference to those around you, refrain from talking.
- I take all forms of academic dishonesty very seriously because it damages the reputation of the school. I will report any such behavior.

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/department/department-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/academicssupport/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.

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