

University of Southern California  
Department of Economics

**ECON 457**  
**Financial Markets**

Steve Sapra, Ph.D., CFA

Spring 2023

## **Course Syllabus**

This syllabus describes the policies, procedures, and content of this course. Please read it.

### **Contact Information**

Instructor: Steve Sapra  
Class: ECON 457 (26155R)  
Office: KAP 364A  
Email: [ssapra@usc.edu](mailto:ssapra@usc.edu)  
Office hours: MW 10:30-11:30 or by appointment

TA: Yukun Ding, [yukundin@usc.edu](mailto:yukundin@usc.edu)

TA In-person office hours: 2:00 - 3:00 pm, Wednesday, KAP 363

TA Online office hours: 2:00 - 3:00 pm, Monday, **Meeting ID: 927 5164 5676**

### **Course Objective**

The objective of the course is to study the theory and empirical evidence relevant for investing, particularly in the context of portfolio management. The major topics will include:

- How markets work
- Optimal portfolio selection
- The relation between risk and return
- Market efficiency
- General equilibrium
- Equities and fixed income
- Derivatives such as futures, options, and swaps

### **Prerequisite**

ECON 303 – Intermediate Microeconomic Theory

The study of investments is inherently quantitative, although I intend the course to be accessible to those of various mathematical backgrounds. Knowledge of basic statistics (means, covariances, regression, etc.) is most important, as these tools will be used throughout the semester. In addition, some projects and problem sets will be spreadsheet-based, so familiarity with Excel will be necessary. I will spend one class on a “statistics refresher”, but this is not a substitute for formal coursework in statistics.

### **Textbook**

**Bodie, Kane and Marcus, *Investments*, 12<sup>th</sup> edition**

[https://www.amazon.com/ISE-](https://www.amazon.com/ISE-Investments/dp/1260571157/ref=sr_1_1?keywords=bodie+kane+marcus+investments+12th&qid=1672243798&srefix=bodie+kane+mar%2Caps%2C262&sr=8-1)

[Investments/dp/1260571157/ref=sr\\_1\\_1?keywords=bodie+kane+marcus+investments+12th&qid=1672243798&srefix=bodie+kane+mar%2Caps%2C262&sr=8-1](https://www.amazon.com/ISE-Investments/dp/1260571157/ref=sr_1_1?keywords=bodie+kane+marcus+investments+12th&qid=1672243798&srefix=bodie+kane+mar%2Caps%2C262&sr=8-1)

### **Lectures and Reading**

The bulk of class time will consist of lectures. My lectures will largely follow the textbooks although I strongly encourage you to attend lectures and read the sections before class. Doing both will materially improve your understanding and help you to retain the course material. We are covering a lot of material over the semester. You will need to read the book, re-read the book, attend lectures, and do homework in order to maximize your chances of success in the course.

I use very little PowerPoint for my lectures. I believe that simply going over slides lacks the necessary detail that students need to master the material. Rather, I will write detailed notes on the board. Because most of the lectures are not PowerPoint-based, **lecture notes will not be made available to students**. If you miss a class, you’ll need to reach out to one of your fellow students to obtain the notes for that class.

### **Course Requirements and Grading**

The course grade will be based on homework, a project, a midterm exam, and a final exam. Your course grade will be determined using the following weights:

Homework	20%
Project	10%
Midterm exam	30%
Final exam	40%

I will usually assign homework at the end of class. Hard copies of every homework are due at the beginning of each class. If for some reason you are unable to attend a particular class session, be sure to email the TA a PDF of your HW prior to the start of the class session. Homework solutions will be posted right after class to Blackboard for all assignments.

The final exam is cumulative, so a good score on the final is indicative of comprehension of all the course material. For students who score better on the final exam than the midterm, I will shift the weight from 30/40 to 20/50. Note that there will be no extra credit given. Other than the course grade, no letter grades will be assigned, although I will report the distribution of the midterm exam scores.

### ***Projects***

There is a single Excel-based project due. I will provide you with the details of the project later in the semester. You are free to work in groups or individually, but each person must turn in their own project.

### ***Exams***

Both exams are closed book, though you will be allowed a single double-sided 8½ × 11 page of notes for the midterm and the final. Do not bring two pages of notes to an exam.

For both exams, you will need a calculator that can raise numbers to arbitrary powers. Laptop computers and calculators with word-processing features are not permitted for use in an exam.

### ***Class Participation***

While there is no grade for class participation, I very much appreciate an interactive class with interesting thoughts and questions, whether we're covering current topics or discussing a theoretical model. Please don't be shy.

### ***Class Holidays***

From time to time it the class may fall on an official USC holiday. For these classes which overlap with holidays, I will generally host a makeup video-based lecture which will also be recorded. However, I reserve the option to make up the class via other formats such as additional reading or projects.

## Textbook Readings and Important Dates

*The schedule below is intended to be only a guide for the semester. I may modify the content covered or scheduled dates of any items below. This includes the addition and/or removal of content. All changes will be announced in Blackboard.*

Week 1	BKM Ch 1 - The Investment Environment
1/9/2023	BKM Ch 2 - Asset Classes and Financial Instruments
	Quant Review
Week 2	Monday No Class - MLK
1/16/2023	BKM Ch 3 - How Securities are Traded
	BKM Ch 4 - Mutual Funds and Other Investment Companies
Week 3	BKM Ch 5 - Rates of Return and the Historical Record
1/23/2023	
Week 4	BKM Ch 6 - Capital Allocation to Risky Assets
1/30/2023	
Week 5	BKM Ch 7 - Efficient Diversification
2/6/2023	
Week 6	BKM Ch 9 - The Capital Asset Pricing Model
2/13/2023	
Week 7	Monday No Class - President's Day
2/20/2023	<b>MIDTERM EXAM (Wed)</b>
Week 8	BKM Ch 10 - APT & Multifactor Models
2/27/2023	BKM Ch 11 - The Efficient Market Hypothesis
Week 9	BKM Ch 14 - Bond Prices and Yields
3/6/2023	General Equilibrium (Instructor Notes)
Week 10	No Class - Spring Recess
3/13/2023	
Week 11	BKM Ch 15 - The Term Structure of Interest Rates
3/20/2023	General Equilibrium (Instructor Notes)
Week 12	BKM Ch 16 - Managing Bond Portfolios
3/27/2023	
Week 13	BKM Ch 18 - Equity Valuation Models
4/3/2023	
Week 14	BKM Ch 20 - Options Markets
4/10/2023	
Week 15	BKM Ch 21 - Option Valuation
4/17/2023	
Week 16	BKM Ch 22 - Futures Markets
4/24/2023	

## 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 Part B, Section 11, “Behavior Violating University Standards” [policy.usc.edu/scampus-part-b](https://policy.usc.edu/scampus-part-b). Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, [policy.usc.edu/scientific-misconduct](https://policy.usc.edu/scientific-misconduct).

### Support Systems:

*Student Health Counseling Services - (213) 740-7711 – 24/7 on call*

[engemannshc.usc.edu/counseling](https://engemannshc.usc.edu/counseling)

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

*National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call*

[suicidepreventionlifeline.org](https://suicidepreventionlifeline.org)

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

*Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-4900 – 24/7 on call*

[engemannshc.usc.edu/rsvp](https://engemannshc.usc.edu/rsvp)

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

*Office of Equity and Diversity (OED) | Title IX - (213) 740-5086*

[equity.usc.edu](https://equity.usc.edu), [titleix.usc.edu](https://titleix.usc.edu)

Information about how to get help or help a survivor of harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants. The university prohibits discrimination or harassment based on the following protected characteristics: race, color, national origin, ancestry, religion, sex, gender, gender identity, gender expression, sexual orientation, age, physical disability, medical condition, mental disability, marital status, pregnancy, veteran status, genetic information, and any other characteristic which may be specified in applicable laws and governmental regulations.

*Bias Assessment Response and Support - (213) 740-2421*

[studentaffairs.usc.edu/bias-assessment-response-support](https://studentaffairs.usc.edu/bias-assessment-response-support)

Avenue to report incidents of bias, hate crimes, and microaggressions for appropriate investigation and response.

*The Office of Disability Services and Programs - (213) 740-0776*

[dsp.usc.edu](https://dsp.usc.edu)

Support and accommodations for students with disabilities. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs.

*USC Support and Advocacy - (213) 821-4710*

[studentaffairs.usc.edu/ssa](https://studentaffairs.usc.edu/ssa)

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

*Diversity at USC - (213) 740-2101*

[diversity.usc.edu](https://diversity.usc.edu)

Information on events, programs and training, the Provost’s Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

*USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call*

[dps.usc.edu](https://dps.usc.edu), [emergency.usc.edu](https://emergency.usc.edu)

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

*USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call*

[dps.usc.edu](https://dps.usc.edu)

Non-emergency assistance or information.