

FICHA REINA: Financial Economics

Competences:

This introductory (but fast-paced) course provides a general survey of finance and investments. It emphasizes an intuitive, logically rigorous understanding of the theory and practice of financial markets, illustrating the concepts through examples and cases drawn from the public, private, and non-profit sectors. Topics covered include: present value analysis and discounting, diversification, the tradeoff between risk and return, market efficiency, pricing of stocks and bonds, the capital asset pricing model, term structure of interest rates, the principle of arbitrage, pricing of derivative securities (forwards, futures, and options), the use of derivatives for hedging, risk management, and the regulation of financial markets.

After this course, the student should be able to:

- Have a better understanding of the role of Financial Management in a modern corporation
- Analyse the time value of money and investment decisions under uncertainty
- Understand the financial and risk issues raised by asset valuation and diversification
- Asses the role derivatives to hedge risk in the modern financial markets

Methodology

It is assumed that students will be familiar with introductory concepts in economics and basic (high school level) mathematics. Students with concerns about their backgrounds are welcome to speak to the instructor. Basic computer spreadsheet skills will be expected, and required to complete some of the assignments.

Assessment

1. Problem sets and Class Participation 10%
2. Homework or Case assignments 20%
3. Midterm Exam 30%
4. Final Exam 40%

Programme

<u>Week</u>	<u>Topics</u>
1	Introduction to finance and the financial markets
2	Present value and the opportunity cost of capital
3	Performance evaluation
4	Valuing financial securities: Bonds I
5	Valuing financial securities: Bonds II
6	Valuing financial securities: Equity I
7	Valuing financial securities: Equity II Review and Midterm exam
8	Arbitrage and Market Efficiency
9	Diversification, risk, and return measures
10	Choosing a portfolio
11	The Capital Asset Pricing Model (CAPM)
12	Options
13	Pricing of options.
14	Futures and Swaps contracts Final exam

Courses activities

The course is intended for students who are interested in learning the basic tools and techniques of finance and how they are employed for the valuation of projects, companies and complex securities. While an intuitive appreciation of the principles will be the primary objective, mathematical tools will be kept to a minimum and developed in lectures and class sessions to illustrate the implementation of these principles to practical cases.

References

The textbook for the course is *Essentials of Investments*, 10/e edition by Zvi Bodie, Alex Kane and Alan Marcus, McGraw-Hill Irwin, 2017. Other "Required Readings", including books and cases, are *Essentials of Corporate Finance*, 9/e edition, Stephen Ross, Jeffrey Jaffe, and Randolph Westerfield, 2017 and *Principles of Corporate Finance*, 12/e edition, Richard Brealey, Stewart Myers and Franklin Allen, The McGraw-Hill Companies, 2019. Regular reading of financial news in publications such as *The Wall Street Journal*, *The Financial Times* or the Business pages of *The Economist* or *The International Herald Tribune* is strongly recommended.