

Syllabus (9/2/08)  
Econ 1710 – Investments – Fall, 2008  
Section SO1 – I hour

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Sections: Fridays, noon, Wilson 102; 3 p.m., Wilson 301

This course is about the theory and practice of investments in financial assets, such as stocks and bonds. Topics covered include risk and return, the capital asset pricing model, market efficiency, stock prices, bond prices, options and futures.

The required textbook is *Investments*, by Bodie, Kane and Marcus, published by Richard D. Irwin. The current edition is the 7<sup>th</sup>. Chapter and page references shown below are to the 7<sup>th</sup>. Students must acquire a financial calculator, such as the Texas Instruments BA-II. I suggest, but do not require, that students subscribe to the *Wall Street Journal*.

There will be two midterm exams, on October 2nd and November 6th, and a final exam on Wednesday, December 17th. There will also be periodic homework assignments. Grades will depend on your scores on the three exams. If you miss a midterm due to illness, travel, or family emergency, and if you notify me of that fact, the missed exam will be waived and your grade will depend on the exams actually taken.

Topics:

1. Asset Classes and Financial Instruments, BKM, Chapter 2.  
Treasury securities, corporate bonds, mortgage-backed securities, common stocks, market indices, derivatives.  
Problems, pp. 53-55: #2, 4, 7, 8, 12, 20. (Due date: 9/19)
2. How Securities Are Traded, BKM, Chapter 3. Mutual Funds, BKM, Chapter 4.  
Primary and secondary markets, stock markets, margins, short sales, mutual funds. Using a financial calculator.  
Problems, pp. 90-93: #3, 7, 8, 17, 19. (Due date: 9/26)
3. Risk Aversion and Capital Allocation To Risky Assets, BKM, Chapter 6.

Expected utility, risk, risk aversion, expected returns, variance, standard deviation, covariance, correlation, risk-free and risky assets, portfolios, capital allocation line.

Problems, pp. 192-196 #1, 2, 10, 13, 16, 17. (Due date: 10/17)

4. Optimal Risky Portfolios, BKM, Chapter 7.

Diversification, two risky assets, optimal risky portfolios, Markowitz portfolio selection model, efficient frontier.

Problems, pp. 236-241: #2, 3, 4, 5, 8. (Due date: 10/24)

5. Capital Asset Pricing Model, BKM, Chapter 9. (Exclude 9.4-9.5)

CAPM, capital market line, mutual fund theorem, beta equation, security market line, alpha.

Problems, pp. 324-328: #1, 2, 4, 13, 14, 15. (Due date: 10/31)

6. The Efficient Market Hypothesis, BKM, Chapter 11. Malkiel article.

Efficient market hypothesis, technical analysis, fundamental analysis, are markets efficient?, tests of the hypothesis.

Problems, pp. 389-393: #1, 2, 3, 4, 5, 6, 23. (Due date: 11/14)

7. Bond Prices and Yields, BKM, Chapter 14. Chapter 16.1.

Bond prices, yield to maturity, Treasury bonds, corporate bonds, zero-coupon bonds, perpetuities, junk bonds, duration.

Problems, pp. 488-493: #2, 4, 8, 18, 20, 21. (Due date: 11/21)

8. Equity Valuation Models, BKM, Chapter 18.

Book value, intrinsic value, discounted dividend models, price earnings ratios.

Problems, pp. 639-647: #1, 3, 4, 7, 8, 15. (Due date: 12/5)

9. Options Markets, and Futures, BKM, Chapter 20, Chapter 22 (Sections 22.1 & 22.4 only).

Call options, put options, options strategies, put-call parity. Spot-futures parity.

Problems, pp. 726-731: #1, 2, 3.

pp. 809-812: #1, 6. (Due date: 12/12)

Calendar - Fall 2008-2009 - Investments - Econ 1710

<u>Monday</u>	<u>Tuesday</u>	<u>Wednes.</u>	<u>Thursday</u>	<u>Friday</u>	<u>Saturday</u>
			Sept. 4		
	9		11		
	16		18	Hw. 1	
	23		25	Hw. 2	
	30 R.H				
			Oct. 2		
3 Colum	7		9 Y.K.		
	14		16	Hw. 3	
	21		23	Hw. 4	
	28		30	Hw. 5	
	Nov. 4		6		
	11		13	Hw. 6	
	18		20	Hw. 7	
	25		27 Thanks	28	
	Dec. 2		4	Hw. 8	
8	9	10	11	Hw. 9	13 Sect. 2 Final
		17 Sect. 1 Final			

Green = Holiday    Blue = Reading Period    Red = Exam  
 Midterms on: Oct. 9, Nov. 6. Finals Dec. 17, Sect. 1; and Dec. 13, Sect. 2.