

Economics 140
Introduction to Investments and Finance
Landau Economics 140, Mondays & Wednesdays, 9:30 – 11:20, Spring 2016

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Teaching Assistant --
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Office Hours: Mondays, 3:00-5:00PM in Landau 221

Required Textbook – Bodie, Zvi, Alex Kane, and Alan Marcus, *Investments*, Irwin McGraw-Hill, Tenth Edition, 2014.

Optional Textbook – Brealey, Richard A., Stewart C. Myers and Franklin Allen, *Principles of Corporate Finance*, Irwin McGraw-Hill, Ninth Edition, 2008 (other editions would be equally helpful)

There will be five homework assignments during the quarter. The due dates are noted on this syllabus. Late homework will not be graded. Your final grade will be largely determined by your performance on the midterm and final, although the homework will count to some degree. You are allowed to cooperate on the homework. The dates for the midterm and final are Monday, May 2nd and Saturday 6/4; there will be no alternative dates – the only two acceptable excuses for missing either exam are a death in your immediate family or an illness requiring the attention of a physician. If you find that your exam has been graded improperly, you must submit a request for a regrade in writing. Your entire exam will be regraded.

This schedule is preliminary; we will undoubtedly deviate from it, but it gives you an idea of where the course is headed. The readings marked with an * are optional and often cover the same material as the required readings.

Course Outline

I. Introduction

Overview of Financial Markets and Financial Instruments -- Stocks, Stock Indices, Short Selling, Bonds, Mortgages, Mutual Funds, etc. (3/28)
BKM, Chapters 1,2,3,4

Quick Review of Statistics Used in Finance – Arithmetic Mean, Geometric Mean, Variance, Standard Deviation, Covariance, Correlation Coefficient, Skewness, etc. (3/28)

History of Financial Asset Returns; Concept of Risk Premia (3/30)
BKM, Chapter 51

Overview of U.S. Tax system (3/30) (this topic will be skipped if we are behind schedule)

II. Portfolio Theory

Risk and Risk Aversion (4/4)
BKM, Chapter 6

Asset Allocation, Optimal Risky Portfolios and Index Models (4/6)
BKM, Chapters 7 & 8
BMA*, Chapters 8 & 9

Capital Asset Pricing Model (4/11)
BKM, Chapter 9

Multifactor Models and Arbitrage Pricing Theory (4/13) **HW#1 due on Wednesday, 4/13**
BKM, Chapter 10

III. Market Efficiency, Behavioral Finance, and Empirical Evidence of Security Returns(4/13)

BKM, Chapters 11, 12 & 13
BMA*, Chapter 14

IV. Fixed Income Securities

Bond Prices and Yields – Concept of Duration) (4/18)
BKM, Chapter 14
BMA*, Chapters 4 & 24

Term Structure of Interest Rates (4/20)
BKM, Chapter 15

HW#2 due on Wednesday 4/20
Practice Midterm will be Distributed

V. Security Analysis

Equity Valuation Models (4/25 and 4/27)
BKM, Chapter 18

Midterm – Monday, May 2nd Covers Material in Sections I-IV

Dividends and Share Repurchases (5/4)
BMA, Chapter 17

Financial Statement Analysis (5/9)
BKM, Chapter 19

Equity Premium Puzzle and Financial Market Anomalies (5/9)
Parts of BKM, Chapter 11 (again)

Private Equity Guest Lecture – Jonathan Coslet – CIO, TPG (5/11) **HW#3 due on Wednesday 5/11**

VI. Options, Futures and Derivatives

Options (5/16, 5/18)

BKM, Chapters 20 & 21
BMA*, Chapter 21 & 22

HW#4 due on Wednesday 5/18

Futures and Swaps (5/23)
BKM, Chapters 22 & 23

VII. Corporate Finance

Capital Budgeting (5/23)
BMA, Chapter 6 & 7

Cost of Capital (5/25)
BMA, Chapter 8 & 10

HW#5 due Wednesday 5/25
Practice Final will be distributed

Modigliani – Miller Theorem and Home Made Leverage³ (5/25)
BMA, Chapter 18

VIII Social Security and Efficient Retirement Design (6/1)

Final is Saturday, 6/4, 8:30AM – 11:30AM.