

# INTRODUCTION TO FINANCIAL ECONOMICS

(Economics 134)

Prof. Klaus Nehring

Fall 2008

**Office:** 1110 SSHB, 752-3379.

Office Hours: M 2:00-3:30 (for you), W (mainly for my grad. students) 3:30-5:00.

**Teaching Assistant:** Hee Yeul Woo , 121 SSHB.

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Office Hours: M 4:00-5:30, F 1:00-2:00.

**Prerequisites:** Economics 100, Statistics 13. Facility with calculus is assumed.

## Reading:

- Textbook (*required*):

Ross, Westerfield and Jaffe, *Corporate Finance*, Irwin, Boston 2005 (“CF”);

Paperback selection of relevant chapters available at UCD bookstore.

- Highly recommended supplementary reading:

Malkiel, B.G., *A Random Walk Down Wall Street*, Norton, N.Y. 2006.

## Homework:

There will be 7 challenging problem sets and a two-part investment exercise. The problem sets as well as the investment exercise will be partly graded. To further stimulate serious work on the problem sets, each exam will contain at least one problem from an earlier homework. You are encouraged to work on the problems with others, but you must provide your own answers.

**Grading:**

Your grade will be calculated as

$$.10 \times \text{Homework} + .30 \times \text{Midterm} + .40 \times \text{Final} + .20 \times \max(\text{Midterm}, \text{Final Score}).$$

*In addition, I may adjust the grade one step up if you participate regularly and intelligently enough.*

Late homework won't be accepted, nor will early or late exams be given, unless you provide a written medical excuse.

**Discussion Sections:**

Hee Yeul Woo, the TA for this course, will lead the discussion sections (R 6-7 and T 7-8, Hutchinson 102). Hee Yeul will help you get started on the problem sets and review them afterwards. *You are expected to come regularly to one of the discussion sections, for otherwise you may have a very hard time doing the homework.*

**Probable Exam Dates:**

- Midterm: Tuesday, November 4.
- Final: Tuesday, December 9, 6 p.m..

## COVERAGE

### Week 1. INTRODUCTION

- CF, ch. 1.

### FOUNDATIONS OF INTERTEMPORAL FINANCE

- CF, Appendix 4A.

### Week 2-3. NET PRESENT VALUE

- CF, ch. 4

### Week 4. HOW TO VALUE STOCKS

- CF, ch. 5.4-5.9 .

### Week 5. HOW TO VALUE BONDS

- CF, ch. 5.1-5.3, Appendix.

### Week 6. INVESTMENT RULES

- CF, ch. 6, sections 1,2,5,6,8.

### CAPITAL MARKET THEORY: AN OVERVIEW

- CF, ch. 9.

### Week 7. INVESTING UNDER RISK: THE MEAN-VARIANCE APPROACH

- Varian, H., Intermediate Microeconomics, ch. 13 (“Risky Assets”).

### Weeks 8-9. MANY RISKY ASSETS: THE CAPITAL-ASSET-PRICING MODEL

- CF, ch. 10.

### Week 10. EFFICIENT CAPITAL MARKETS

- CF, ch. 13.