



Northeastern University
Department of Economics

Financial Economics

CECNU640

Prof. María José Luengo-Prado

Summer 1, 2007

🕒 M/Tu/W/Th. 1:30pm-3:10pm

📍 320BK

🕒 **Office Hours:** Wednesdays: 10:30am-12:00pm.

Thursdays: 10:30am-12:00pm.

Also by appointment.

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Course Overview

The objective of this course is to provide a framework for understanding the mechanism of financial investment. The materials to be covered include the basics of financial markets, the time value of money, the principles of risk and return, theories of portfolio selection, valuation of stocks, bond pricing, and options (what they are and how to use them). The course is geared toward nonbusiness majors who are interested in a rigorous course in finance.

Prerequisites

Principles of Macroeconomics and Principles of Microeconomics (ECNU115 and ECNU116), Macroeconomic Theory (ECNU315) or Macroeconomic Theory (ECNU316), and Statistics (ECNU350).

This course builds on students' background knowledge in economics and statistics. Although efforts will be made to keep the use of advanced mathematics to a minimum, knowledge of calculus is assumed and it is crucial for the understanding of the course materials. Knowledge of spreadsheet software is a must.

Blackboard

I will use Blackboard to distribute most course materials. To use Blackboard, log in to your myNEU account. If you have officially registered for the course, it should automatically appear in your Course List. Click on "ECNU640 FINANCE ECN-S107". If the course does not appear in your list, let me know as soon as possible.



A Blackboard tutorial can be found at <http://www.discoveringblackboard.neu.edu>. Please, use the appropriate “Discussion Board” on Blackboard to ask questions about course content, homework, etc. instead of email.

Textbook Readings

Fundamental of Investments (valuation and management), 4th edition, by Bradford D. Jordan and Thomas W. Miller, Jr., McGraw-Hill Irwin, 2008.

The textbook includes all sorts of interactive materials to help you study. You can access the materials following the link on Blackboard or directly at:

http://highered.mcgraw-hill.com/sites/0073027219/student_view0/index.html

I will assign other supplemental readings and make them available through the course web page.

Course Requirements and Grades

Your grade will be based on:

| | |
|---|------|
| Class participation and pop quizzes | 10% |
| Problem sets | 20% |
| 1 Midterm Exam (May 31) | 25% |
| 1 Comprehensive Final (June 25) | 45% |
| <hr/> | |
| TOTAL | 100% |

The Problem Sets

The following rules apply and will be strictly enforced without exceptions:

- Homework will be posted on Blackboard and will be due on the specified date.
- Since problems sets are posted well in advanced the due date, late homework will not be accepted, regardless of circumstances. The problem set with the lowest score will be dropped when calculating your grade.
- If you have complaints about the grading of a problem set, do the following. Within 1 week after the problem set was returned, hand back to me your graded homework and a brief written statement explaining your complaint (i.e. which question you think was graded wrongly and why).



- I encourage you to work in groups on the assignments. However, everybody has to hand in his/her own, uniquely written assignment. Note that exams will be similar to problem sets, so you would only hurt yourself by not working out the problems and copying them from someone else.
- In addition to homework, it is strongly recommended that you try the review questions at the end of each chapter and take advantage of the interactive learning materials that come with your textbook.

Midterm

There will be one in-class examination on May 31 (the date is subject to change and will be confirmed one week in advance). This exam represents 25% of your grade. There will not be make-up exams unless you have a valid conflict, about which you have to inform me at least 2 weeks before the exam. If you skip the exams at the last minute, please be aware of the fact that, unless you were completely incapacitated, you will not be able to make up the exam nor will I weight your final higher to adjust for the missing points. Generally, absence from an exam will be excused only for illness upon presentation of a letter from your doctor. If you are excused from the midterm, the final will be worth 70% percent of your final grade.

The Final Exam

The final is a comprehensive exam and will represent 45% of your grade. It is scheduled for June 25 at 8am. Room TBA. The final's date is set by the university. Be advised that I will not change the exam to accommodate students' personal travel. In case of exam conflict, please follow the university policy described at <http://www.registrar.neu.edu/finexconflict.html>

Keep in mind

- ⇒ Poor performance is not a valid reason for an **incomplete**. An incomplete is given only under exceptional circumstances and requires satisfactory completion of a substantial part of the course. A grade of incomplete will require a signed "contract" specifying completion arrangements. The instructor determines the legitimacy.
- ⇒ The course can be taken **Pass/Fail** by non-freshman students for whom it is not a required course. It is the student's responsibility to determine if he/she is eligible to take the course under this option. The instructor must be informed of this decision no later than one week after the graded second midterm exam is returned to the student. When permitted, students **MUST** earn the equivalent of a C- or higher to receive a Pass grade. A contract will be signed between the student and the instructor to keep record of the request. Do not ask during or after the final exam for a Pass/Fail grade.



⇒ Northeastern University is committed to the principles of **intellectual honesty and integrity**. All members of the Northeastern community are expected to maintain complete honesty in all academic work, presenting only that which is their own work in tests and assignments. Students found cheating or plagiarizing will receive an F in the course and will be referred to the Dean of Students for appropriate action.

Class Etiquette

- **Very regular attendance is expected.** Students who are not willing to attend very regularly should drop the course. **Important:** if you accumulated more than four absences, you will receive a D or F for the course.
- Please bring a scientific **calculator** to class every day. Also, on occasion I may ask you to bring a **laptop** computer to class if you have one.
- You are expected to be **punctual and respectful**. Cell phones off, please!
- Please, do not leave the classroom during lectures unless strictly necessary. We will have a **short break**—3 to 5 minutes—during each class period given the length of our course sequence.
- Readings and homework will be assigned weekly and announced on Blackboard. If a reading is marked as “required”, please **come to class prepared**.
- Be advise that I **could call** during lectures and I expect you to make an effort to answer questions intelligently.
- Behaviors that are **disruptive** to teaching and learning **will not be tolerated** and will be referred to the Student Conduct Program for disciplinary action.

Where to go for help

(other than the instructor who really encourages to make use of her office hours)

- **Blackboard.** You can post questions in the appropriate Discussion Board on Blackboard. Be specific in your headings so that your question can be quickly identified. Questions posted by 10pm will be answered by the instructor within a couple of hours. Questions posted after 10pm will be answered the following day. Anyone is allowed and encourage to answer questions by a classmates!
- **Students with Special Needs.** The University will make reasonable accommodations for persons with documented disabilities. Students should notify the Disability Resource Center (located in 20 Dodge Hall) and their instructors of any special needs. Instructors should be notified the first week of classes.



Outline

INTRODUCTION

1. A brief overview of the Financial System.
2. The time value of money.
3. Types of securities. [Chapter 2 in JM]

PORTFOLIO THEORY

4. Brief history of risk and return. [Chapter 1 in JM]
5. Expected utility and risk aversion.
6. Diversification and risky asset allocation. [Chapter 11 in JM]
7. The Capital Asset Pricing Model. [Chapter 12 in JM]
8. Performance evaluation. [Chapter 13 in JM]

STOCKS

9. The Stock Market. [Chapter 5 in JM]
10. Buying and selling securities. [Chapter 2 in JM]
11. Stock Valuation. [Chapter 6 in JM]
12. The Efficient Market Hypothesis. [Chapter 7 in JM]
13. Behavioral Finance. [Chapter 8 in JM]

BONDS

14. Interest rates. [Chapter 9 in JM]
15. Bond prices and yields. [Chapter 10 in JM]

OPTIONS

16. Stock options. [Chapter 15 in JM]
17. Option valuation. [Chapter 16 in JM]