

**Economics 393 - Financial Economics  
Spring 2014**

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**Goals:**

We study the functioning of capital markets for stocks, bonds, foreign exchange, commodities, and derivative securities on these underlying instruments. Students will also learn about the market microstructure of these securities.

**Prerequisites: This is an upper level elective.**

220:320 (Intermediate Micro) and 220:322 (Econometrics)

**Texts:**

Bodie, Z., A. Kane and A. Marcus (BKM), *Investments*, New York: McGraw Hill, 10<sup>th</sup> ed, 2014,

The bookstore has rentals, used copies and e-book versions if you prefer. This is a widely used textbook, and you should not have any trouble selling back a used book.

**Additional REQUIRED readings:**

Supplemental reading will be made available through Sakai: <http://sakai.rutgers.edu>

News items pertinent to the class can be found in my Evernote notebook on financial markets: <http://www.evernote.com/pub/mizrach/Finance>. When I post relevant items, I will Twitter a link to: <http://twitter.com/#!/BMizrach>.

**Clickers:**

I will be using the iClicker 2 for the first time this semester. Everyone is required to purchase them if they don't already own one. Please bear with me as I adapt my class to their use.

**Grading:**

Mid-term:	40%;	March 13th in class.
Final:	45%;	May 8: 09:00-11:00 AM
Problem sets and participation:	15%;	

**Trading Game:**

During our stock market and derivatives unit, we will play simulated trading games. Details will be provided in class.

**Participation:**

Iclicker points equal 1 problem set point. There is no maximum.

**Problem Sets:**

There will be 7 problem sets. Questions are in PDF files under "Problem Sets" in Sakai.

Submit your multiple choice answers in "Tests and Quizzes" by 11:00 AM on the due date. Late submissions are penalized 10% per day.

<b>Date (4 classes)</b>	<b>1. Models of Risk and Return</b>	<b>Text readings</b>
January 23	(a) Utility maximization	BKM 6
January 27	(b) Mean-variance analysis	BKM 7
January 27	(c) Efficient frontier	BKM 8
January 30	(d) CAPM and APT - Theory	BKM 9, 10, 13;
January 30	(e) Empirical analysis of security returns	BKM 5;
February 3	(f) Value at Risk	BKM 5: 132-41;
February 3	<b>Problem Set #1 Due</b>	

<b>Date (5 classes)</b>	<b>2. The Equity Market</b>	
February 6	(a) Valuation	BKM 17, 18
February 7	<b>Equity Trading Game Starts</b>	
February 10	(b) Mutual funds and ETFs	
February 10	(c) NYSE	BKM 2.3, 3.2, 3.3;
February 10	<b>Problem Set #2 Due</b>	
February 13	(d) NASDAQ	BKM 3.5-3.8;
February 13	(e) International markets	BKM 3.4, 25
February 17	<b>NO CLASS</b>	
February 20	(f) Security analysis and investment bkg.	BKM 3.1, 19;
February 20	(g) Efficient markets and behavioral finance	BKM 11
February 24	(h) HFT, dark pools, Reg. NMS	
February 27	<b>Problem Set #3 due</b>	
February 27	(i) Current issues in the stock market	
February 28	<b>Equity Trading Game Ends</b>	

<b>Date (6 classes)</b>	<b>3. Fixed Income Markets</b>	
March 3	(a) Theory of interest rates	BKM 14
March 3	(b) Term Structure	BKM 15
March 6	(c) Duration	BKM 16
March 6	(d) Treasury market	BKM 2.1-2.2;
March 10	(e) Ratings agencies	
March 10	(f) Corporate bond market	BKM 14.5;
March 12	<b>Problem Set #4 Due (Wed.)</b>	
March 13	<b>MIDTERM EXAM</b>	
March 17	Spring Break	
March 20	Spring Break	
March 24	(g) Housing market	
March 24	(h) Mortgage backed securities and CDOs	BKM 1:34-35, 16:527-29;
March 27	(i) The subprime crisis	
March 31	<b>Problem Set #5 Due</b>	

<b>Date (5 classes)</b>	<b>4. Derivative Securities</b>	
March 31	(a) Intro to derivatives	BKM 20.1-20.4
March 31	(b.1) Options – risk neutral valuation	
March 31	(b.2) Options – binomial, Black Scholes	BKM 21.1-21.5
April 1	<b>Derivatives game starts</b>	
April 3	(b.3) Options – Hedging, exotics, strategy	BKM 20.7
April 3	(c) Futures	BKM 22, 23
April 7	(d) Microstructure and OTC derivatives	
April 10	(e) Swaps	
April 10	<b>Problem Set #6 Due</b>	
April 11	<b>Derivatives game ends</b>	

<b>Date (3 classes)</b>	<b>5. Foreign Exchange Market</b>	
April 14	<b>NO CLASS</b>	
April 17	(a) Determinants of the exchange rate	
April 21	(b) Eurozone	
April 21	(c) Interest parity relations	BKM 25.2-25.3
April 24	(d) Foreign exchange derivatives	
April 24	(e) Exchange rate crises	

<b>Date (2 classes)</b>	<b>6. The Commodity Market</b>	
April 28	(a) ETFs and indices	
May 1	(b) Metals	BKM 22.1, 22.5
May 1	(c) Energy and carbon	

<b>Date (1 class)</b>	<b>7. Topics</b>	
May 5	<b>Problem Set #7 Due</b>	
May 5	TBA	