V31.0368: Financial Economics

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Course Web Site: NYU Blackboard
Class hours: Tu/Th 11AM-12:15 PM
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Office hours: TBA
Recitation: TBA

Midterm Exam: Thursday, March 10, in class
Final Exam: XXX, XXX, XX AM – XX AM

This syllabus is a working document and subject to change. Please note the date in the upper right-hand corner. Updated versions will be posted on the web site referenced above.

1. Course Description And Aims
The last several decades have brought forth rapid and profound changes to the investment industry, including an almost exponential growth of newly designed securities and trading strategies. Yet many basic principles of financial economics remain important to understanding the fundamentals of financial markets. Interest rates and rates of return affect our lives on a daily basis, now as they have in the past. For example, when you take out a student loan or invest in the stock or bond markets, those rates determine the rate at which wealth accumulates and is made available for future investment. A key element of how much financial return is earned is the riskiness of assets such as stocks, bonds and loans. What is risk and how is it related to the concept of efficient markets? How does the riskiness of an asset influence rates of return and portfolio allocation, and the decision of which assets investors buy? How are equities and bonds valued in an efficient market? How are derivative assets
priced? In this course, you will have the opportunity to explore what financial economics has to say about these questions. The focus of this course will be on investment analysis and asset pricing, with the aim of conveying the practical applications of investment theory.

2. Course Requirements

Prerequisites: Intermediate Microeconomics and/or Intermediate Macroeconomics. Students who have taken or will take Foundations of Financial Markets at Stern may not take this course.


Course Reading—Handouts and News Articles: Additional readings in the form of handouts and news articles will occasionally be distributed by email or in class. Students are expected to stay abreast of economic developments. We will sometimes take time to discuss news articles on current economic events and policy related to the course material.

Home work assignments: There will be 6 problem sets assigned during the semester. These assignments are designed as practice for the exams. You are expected to turn them in on time, meaning in class the day they are due. Mistakes will not count against you in your course grade. Any problem set turned in on time, with a serious attempt to answer all questions, will automatically receive a grade of 100%. In general, late problem sets will only be accepted in the next class period, and will receive a grade of 50%. No problem sets will be accepted later than the next class period after they are due. There will be one exception to this homework policy: you will be given one “free” late homework. If for any reason you cannot turn your homework in on time, you may turn it in up to one week late (but no later) for full credit. This “freebie” can only be used ONCE during the course. All other homework must be turned in on time in class to receive full credit. To use this one-time option, mark the top of your homework with “freebie” when you turn it in. Please don’t ask to be an exception to this policy. If for some reason you do not receive a grade for a homework you turned in (check Blackboard), you must alert me or the T.A. within one week after the graded homeworks have been returned in class and grades posted or you will receive zero for that homework.

Missed classes: Class attendance is not mandatory. However, I do not provide lecture notes to students and I will often present material that is not in the text. If you are unable to attend class, be sure to retrieve the assignment from the web site for the course, or ask another student to get an extra copy of any assignments passed out, and turn in any assignments due. To help you do this, get the phone numbers of one or two students who live near you, and do this early in the semester (i.e., don’t wait until after you become ill and have to miss class). Do not put late problem sets in Prof.
Ludvigson’s or the T.A.’s box, because they will be considered as if they were not turned in.

3. Additional Course Materials/Resources

Web site: The web site for this course is listed at the top of this document. On this web site will be posted: the syllabus, homework assignments, office hours, special announcements, class handouts (when possible) and other information as it comes up. When in doubt, please refer to it first for information or for course materials that may have been handed out in class.

Recitation Section: There will be a recitation section once per week held by the TA. The primary purpose of this section is for the TA to be routinely available to answer your questions about any aspect of the course material that you may have found difficult or confusing. So please come with your questions. The TA may also go over the correct answers to homework problems after they have been turned in and to review important concepts. Please take advantage of this resource as a way to clarify and recap the week’s work and prepare for examinations. It’s a great way to keep up with the class.

Tutoring: Additional assistance for this class is available to you free of charge at the College Learning Center located on the 1st Floor of Weinstein Hall (right behind Java City). For information on one-on-one and group peer tutoring, please stop by the CLC or go to their website: http://www.nyu.edu/cas/clc

4. Exams and Grading

There will be one midterm exam and one final exam. These will test (1) your basic mastery of the course material (as presented in the lectures, assigned reading, and homework assignments), and (2) your ability to apply this material to new problems. Anything that was assigned as reading or covered in the class is fair game. The final will be comprehensive.

Exam dates and times: The midterm exam will be given in class on the Thursday before spring break week. The final exam date and time are set by the college. The dates of both exams are listed at the top of the first page of this syllabus. Neither exam date can be changed. If you plan to take this class you will need to abide by these dates, so please plan your travel schedules around them.

Grading: Your total score in the course will be a weighted-average of class participation, the homework, the midterm, and the final:

- Class Participation: 5%
- Homework: 10%
- Midterm Exam: 35%
- Final Exam: 50%
Your final letter grade will be determined by your total score. The economics department guidelines stipulates a curve for non-principles courses gives the grade of A- or A to the top 29% of the class (based on total score), and the grade of B-, B or B+ to the next 40%. The next 22% earns Cs. Grades are based solely on the total score for the assigned work and exams. No extra credit or additional work can be offered, and grades cannot be negotiated.

5. Course Ground-rules

(1) CELL PHONES AND PDAs: If you carry a cell phone, please turn it off before entering the classroom. Please do not use iPhones or Blackberries during the lecture—if you must engage in e-communication during the lecture, please step out of the classroom to do so.

(2) INCOMPLETES AND MAKE-UPS: The economics department does not grant incompletes except in cases of genuine emergencies, which must be documented and approved by the department’s director of undergraduate studies. The appeal and documentation must be approved *before* the exam, not after. Do not assume that you can miss the midterm or final exam and make it up later. *No make-up exams can be given.* Please do not miss an exam!

(3) CLASS ATTENDANCE: A small portion of your grade is based on class participation, but attendance is *not* mandatory. You are, however, responsible for everything covered in class. If you know in advance that you must miss class, you may try to appeal to the kindness of another student to turn in any work that is due, obtain any new assignments, and take careful notes for you. Please don’t ask me to “fill you in” on what you missed or to give you lecture notes.

(4) OFFICE HOURS: if you have trouble with the course, please come to my office or to the T.A.’s office during our scheduled office hours to ask questions. The first recourse for trouble should be the recitation sections, which are intended to provide help with the course material. If you are absolutely unable to make these scheduled hours and need to talk to me, please send me an email (email address above) noting your availability and we will arrange a mutually agreeable time to meet. Please do not drop by without an appointment outside of office hours, however, as it is unlikely that I will be able stop what I am doing to meet with you then. Note that coming to office hours and asking questions will not affect your grade one way or another. Your grade is based solely on your exams, homework, and participation as stated above.

(5) CALCULATORS ON EXAMS: The use of calculators will be permitted on exams. The use of large-screen graphics calculators, however, will not be permitted. *Please obtain a small screen calculator for the exam and learn how to use it prior to the exam.* It is your responsibility to figure out how to work such a calculator before coming to the exam (e.g., how to raise a number to a higher power). It is strongly recommended that you practice your homework problems using the calculator you will
use on the exam, so that you become comfortable with it. If you bring a large-screen graphics calculator to the exam, you will be asked to put it away and use a small-screen calculator.

(6) **WAIT LISTS**: The number of students in the course will not be extended beyond its capacity. A student must drop the course for one on the wait list to be admitted. Please don’t ask to be an exception to this policy.

(7) **EXTRA CREDIT**: Your course grade will be based *solely* on the criteria outlined above (homework, exams, class participation). *Please understand that no extra work can be given, or additional credit assigned, to improve your grade.*

### 6. Tentative Schedule

The schedule below is tentative. Some topics may be cut if time is short.

1. Introduction
   i. Fundamentals of financial markets: financial markets and the economy, asset classes and financial instruments, types of markets, types of trading mechanisms. Reading: BKM, chapters 1, 2, 3.2 and 3.3.

2. Equity and Bond Markets, Interest Rates
   iii. Interest rates and rates of return; the risk & term structure of interest rates. Reading: BKM chapter 10.

3. Market Efficiency
   i. The Efficient Markets Hypothesis. Reading: BKM, chapter 8

4. Equity valuation
5. Derivative markets (time permitting)
   i. Forward and Futures Markets, BKM, chapter 17, sections 17.1-17.4.