

Economics 450-Section 1
Financial Economics
Winter 2006
T,Th 9:30 - 10:45 a.m.
369 CB

Text: Zvi Bodie, Alex Kane and Alan J. Marcus, Investments, 6th Edition, Irwin, 2005.

Reference: Thomas E. Copeland and J. Fred Weston, Financial Theory and Corporate Policy, 3rd Edition, Addison-Wesley Publishing Co., 1988. Copies of both texts will be available in the Reserve Library.

Course Objectives:

1. To develop an understanding of the concepts and terms of financial economics.
2. To apply economic theory to financial problems.
3. To understand the relationships between economic theory and financial markets.
4. This course will not focus on constructing individual portfolios.

Grading Procedures:

	<u>Points:</u>
Exam 1	100
Exam 2	100
Final	200
Project	(1) 40 (Due March 10) (2) 60 (Due April 8)
Problem Sets	<u>100</u>
Total	600

Instructor:

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Office Hours: MWF 9:30-10:30 am or by appointment

Final Exam: Comprehensive

Problem Sets: (Available on the department website.)

1. Problem sets are due one week after they are assigned.
2. Problem sets handed in late will have a 20% deduction. Problem sets turned in after the end of class on the due date will be considered late.
3. Problem sets will be accepted up to one week after the due date.
4. The T.A. will assist with problems sets, but will not work them in review sessions.

Your project will consist of two components:

1. Derive the Efficient Frontier. For this project you will need to obtain data from the CRSP data set or finance.yahoo.com. If you use Yahoo, click on the chart icon to get the data. The CRSP data set can be accessed at wrds.wharton.upenn.edu. I will get the username and password for you later. Obtain monthly returns for 20 stocks for 10 years. You are then to follow the method in Chapter 8 in the textbook (Section 8.5). This project can be easily completed in Excel. For this part of the project give the T.A. your efficient frontier.

There is no write-up for this part of the project.

2. Test the CAPM using the same data you used for the first part. Before approaching this project, make sure you read Ch. 9 and 13 in your textbook. The risk-free rate can be obtained from www.research.stlouisfed.org/fred2. A test you can follow is outlined in the first section of Ch. 13. The regression analysis necessary to complete this project can be easily accomplished using Shazam software package. Your report should include (1) an introduction (2) review of literature, (3) theoretical section (4) description of duties (5) empirical model and tests done and (6) Conclusions. The empirical section should include your regression results and a discussion of the implications of the CAPM. The length should be 5-7 pages. Please use the format of a journal article such as the Journal of Finance. The T.A. will post an example of a report on Blackboard.

<u>Dates</u>	<u>Topics</u>	<u>Problem Set</u>	<u>Chapter in Texts</u>
1/10, 1/12	Review of mathematics of finance. Read chapters 2, 3, and 4 in text. You will be tested on the material.	1	1) Appendix A in (Copeland & Weston)
1/17, 1/19	Intertemporal allocation of resources	2	1. (Copeland & Weston)
1/24, 1/26	Capital budgeting	3	2. (Copeland & Weston)
1/31, 2/02, 2/07	Term structure of interest rates and Bond Prices	4	14, 15
2/09	Test Review and Catch-up EXAM 1 (2/10-2/13) Testing Center		
2/14, 2/16	Choice under uncertainty	5	6
2/23, 2/28, 3/02	Mean-variance and uncertainty	6	7, 8
3/09, 3/14, 3/16	Capital asset pricing model	7	9
3/21, 3/23, 3/28	Future markets EXAM 2 (3/31-4/03)	8	22, 23
3/30, 4/04, 4/06	Options markets	9	20,21
4/11, 4/13	Efficiency of capital markets		13
4/18	Test Review		18

FINAL EXAM- Friday, April 21, 2006, 7:00 - 10:00 a.m.