

Econ 175: Financial Investments Winter 2002

Syllabus

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Textbook: Bodie, Kane, and Marcus, *Essentials of Investments*, 4th edition, McGraw-Hill

Prerequisites: Econ 1AB or Econ 2AB, and Econ 120A

Class meetings: Tues and Thurs, 12:45-2:05 in HSS 2250

Office hours: Monday, 11:00 – 12:00 and Thursday, 2:30 – 3:30

Course Objective: The course is concerned primarily with theories of portfolio management and theories of asset pricing. While most individual assets, or securities, entail a high degree of risk due to the volatility of the asset's value, by diversifying, or putting together a portfolio of different assets, we can create a new asset (the portfolio) with better risk and return characteristics, i.e., a higher expected return for a given degree of risk. Theories of portfolio management focus on the most effective or efficient ways of putting together a portfolio, or collection of assets, to achieve the benefits of diversification. In studying asset pricing, we will consider theories of the determination of an asset's price as a function of its risk characteristics. In particular, it turns out that there are some types of risk for which the investor is compensated in the form of a higher average return, and other types of risk for which the investor is not compensated. A solid understanding of the contents of the course will give you some simple but powerful principles to guide your personal financial management decisions.

Course grade: Midterm 1: 25%
Midterm 2: 25%
Problem sets: 10%
Final exam: 40%

Problem sets: Five problem sets will be assigned. The problems will be either analytical problems, or computer problems, or a combination. Problem sets must be handed in on the due date at the beginning of class. Your grade on the problem sets will be computed as the average of your best 4 out of 5 scores on individual problem sets. Since the solutions to the problem sets will be posted on the web later on the day they are due, problem sets will not be accepted late.

Exams: The dates of the midterms are indicated on the schedule. If you have some schedule conflict that prevents you from taking one of the midterms, please discuss the situation with me within the first two weeks of the quarter.

Tues, Jan 8:	Chapter 6, Risk and return
Thurs, Jan 10:	Chapter 6, continued
Tues, Jan 15:	Chapter 7, Efficient diversification
Thurs, Jan 17:	Chapter 7, continued, PS #1 due.
Tues, Jan 22:	Chapter 7, continued
Thurs, Jan 24:	Chapter 8, Capital Asset Pricing and Arbitrage Pricing Theory
Tues, Jan 29:	Midterm 1 on Chapters 6 and 7, and on Chapters 1-3.
Thurs, Jan 31:	Chapter 8, continued, PS #2 due.
Tues, Feb 5:	Chapter 8, continued
Thurs, Feb 7:	Chapter 8, continued
Tues, Feb 12:	Chapter 10, Bond prices and yields
Thurs, Feb 14:	Chapter 10, continued, PS #3 due.
Tues, Feb 19:	Chapter 13, Equity valuation
Thurs, Feb 21:	Midterm 2 on Chapters 8, 9, and 10, and on Chapter 4.
Tues, Feb 20:	Chapter 15, continued
Thurs, Feb 28:	Chapter 16, Options markets, PS #4 due.
Tues, March 5:	Chapter 16, continued
Tues, March 12:	Chapter 17, Option valuation
Thurs, March 14:	Chapter 17, continued, PS #5 due.

Final exam: Friday, March 22, 11:30 – 2:30 .