

ECON 422: INVESTMENT, CAPITAL, AND FINANCE

| | |
|--|-----------------------------|
| Instructor: Yael Jacobs (she/her) | Time: TR 10:30–12:20 |
| Email: jjacobs7@uw.edu | Place: Sieg Hall 224 |

Course Pages:

- <https://canvas.uw.edu/courses/1729301>

Office Hours: Office Hours times: T 2:00–3:00, R 1:00–2:00. Location: Savery 334. I am also available by email, and if you want to schedule office hours at a different time or schedule a Zoom meeting, please just let me know.

Main References: This will be our main text for the course; we will skip around quite a bit, but this will be a useful reference for you. Any edition of this text will suffice for our purposes.

- Zvi Bodie, Alex Kane, and Alan Marcus, *Investments*, McGraw-Hill, 12th ed., 2022.

Secondary References: I strongly encourage students to read finance-related news throughout the term. If students so desire, they may, but are by no means required to, subscribe to one of the following newspapers, all of which are known for excellent business and financial news. Both the New York Times and the Wall Street Journal have free subscriptions available to UW students.

- The Financial Times
- The Economist
- The Wall Street Journal
- The New York Times

Objectives: This course is primarily designed for students who are interested in how businesses and investors make decisions about what projects to invest in, how to finance said projects, and how financial instruments are priced. By the end of the course, students will have learned:

- To calculate and interpret net present value and internal rate of return
- The features of stocks, bonds, options, and futures contracts, along with pricing models for each
- The construction of optimal investment portfolios using Modern Portfolio Theory
- The importance of diversification and the relationship between risk and return
- The Capital Asset Pricing Model
- Concepts of market efficiency and inefficiency arising from behavioral bias
- Ways to combine various financial assets together to design portfolios that meet specific investor goals

Prerequisites: Econ 300 and one of Stat 311, Math 390, Stat 390, or Q Sci 381 are required to take this course.

Grading Policy: Problem Sets (25%), Exam 1 (25%), Exam 2 (25%), Exam 3 (25%). The median grade in the class is curved to a grade of 3.5, as per department policy. The 75th percentile grade is most often

curved to a grade halfway between the median and 4.0. Other grades generally are fit to this line, but exceptions are made when the distribution of grades is unusual. I will provide details about the current state of the grading curve throughout the quarter.

Problem Sets: Several short problem sets will be assigned throughout the quarter, and are due at 11:59 PM Pacific Time on Mondays (with the exception of the last problem set, which is due on a Wednesday night). A random subset of questions from each assignment will be graded for correctness, and the rest of the questions will be graded for completeness. Solutions will be posted after the assignments are due for help studying. Submissions will only be accepted in PDF format or as **legible** scans of handwritten work. The lowest homework score will be dropped from your grade.

Exams: Three non-cumulative exams will be given throughout the quarter, during class. Attendance at the exams is mandatory. Exams will be open-book and open-note, with a mixture of multiple-choice and multiple part short-answer questions. An attempt is made while grading to provide as much carry-through and partial credit as possible, but no partial credit is guaranteed for any incorrect answers or answers with incorrect explanations or work.

Regrades: If you believe the answer key is mistaken or that your answer matches the answer key but did not receive credit, please contact me for a regrade as soon as possible. All requests to review other grading decisions (e.g. amount of partial credit given, final curve, etc.) are almost never accepted.

Attendance Policy: Attendance for exams is mandatory. If you are unable to attend an exam due to circumstances beyond your control, please contact me as soon as this issue arises, and prior to the beginning of the scheduled exam period.

Exceptions will be made for health, religious, and academic reasons, and accommodations may be possible for those with other challenges.

No late assignments will be accepted.

Accommodations: Should you require disability accommodations, please contact Disability Resources for Students at <http://depts.washington.edu/uwdrs/> or 206-543-8924.

Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to request an accommodation, is available at [Religious Accommodations Policy](#). Accommodations must be requested within the first two weeks of this course using the [Religious Accommodations Request form](#).

Academic Misconduct: All students are expected to know and to abide by the University's Academic Misconduct policies as defined at <http://www.washington.edu/admin/rules/policies/SGP/SPCH209.html#7> summarized at <https://depts.washington.edu/grading/pdf/AcademicResponsibility.pdf>. In particular, while you are encouraged to study with each other, all assignments for this course must be completed on one's own. Exams are open-book and you may access "cheatsheets," your notes, textbook, or other sources printed sources, but you may not use electronic devices during exams. Failure to abide by these policies is likely to result in failing this course, and may result in further sanctions as described by the policy. If I believe you have cheated on an assignment, you will receive a "zero" grade for that assignment.

Table 1: Tentative Outline

| Date | Topic | Reading |
|-------------|-----------------------------|---------------------------------------|
| 1/4 | Introduction to Econ 422 | Syllabus and Chapter 1 |
| 1/9 | Present Value | |
| 1/11 | Investment Decisions | |
| 1/16 | Bond Pricing | Chapter 2.1–2.2, 14 |
| 1/18 | Term Structure | Chapter 15 |
| 1/23 | Stock Pricing | Chapters 2.3–2.4, 18 |
| 1/25 | Risk and Return | Chapters 5.1–5.7 |
| 1/30 | Exam 1 | Present Value to Stock Pricing |
| 2/1 | Simple Portfolios | Chapter 6 |
| 2/6 | Risky Portfolios | Chapter 7 |
| 2/8 | Index Models | Chapter 8 |
| 2/13 | CAPM | Chapter 9 |
| 2/15 | Efficient Market Hypothesis | Chapter 11 |
| 2/20 | Exam 2 | Risk and Return to CAPM |
| 2/22 | Behavioral Finance | Chapter 12 |
| 2/27 | Derivatives | Chapter 20 |
| 2/29 | Options Valuation | Chapter 21 |
| 3/5 | Futures and Forwards | Chapter 22 |
| 3/7 | Exam 3 | EMH to Futures and Forwards |