

Econ 422

Finance, Capital, and Investments

Spring 2020

Overview

This course is an introduction to financial economics and asset pricing. Key topics are valuation of assets with net present value and no-arbitrage, informational efficiency of asset markets and risk management.

Financial economics is a quantitative subject. You should have some background in calculus, statistics, and microeconomics, and be willing to put in significant time studying and completing problem sets.

Course prerequisites are: 2.0 in econ 300; either econ 311, stat 311, math 390, stat 390, or qmeth 201. You will also need to know how to use Microsoft Excel and/or be willing to learn!

Instructor: Matt Daniels

- Office: Savery 319F
- Lectures and Office hours via Big Blue Button on Canvas (or maybe Zoom)
- Office hours: Tuesday 2:00-3:00 and by appointment
- Email: mattd25@uw.edu (prefacing emails with [Econ 422] can help me keep things organized and respond promptly)

Website: Canvas

Textbook

Investments, 11th edition, by Bodie, Kane, and Marcus

Learning Objectives

- The role of financial instruments in transferring resources across time and managing risk
- Theory of time discounting and intertemporal utility maximization
- Portfolio theory, the risk/return tradeoff, and the Capital Asset Pricing Model
- Basic theory of pricing a variety of assets including stocks, bonds, and futures

Class lectures

Via Canvas! Will record these as well if you prefer to view at another time.

Grading

We will have homework and one exam (a long quiz) via canvas. The exam will be mostly essay type questions given that the class is remote. In addition we will have two short (1-2 page) projects for you to apply what you've learned using some real world data.

- Homework - 30%
- Small project 1 - 15%
- Small project 2 – 20%
- Exam - 35%

Timeline (subject to change)

Date	Topic	Reading	Homework due
Mar 30	Introduction	None	
Apr 1	Discounting	Ch. 1-3 (can skim)	
Apr 6	Firm Investment Decisions		
Apr 8	Bond Pricing	Ch. 2 & 14	Homework 1
Apr 13	Term Structure	Ch 15	
Apr 15	Stock Pricing	Ch 18	
Apr 20	Risk and Return	Ch 5	Homework 2
Apr 22	Expected Utility		
Apr 27	Portfolio Basics	Ch. 6	Homework 3
Apr 29	Portfolio Basics	Ch. 7 & 8	
May 4	Capital Asset Pricing Model	Ch. 9	Project 1
May 6	Futures and Forwards	Ch. 22	
May 11	Capital Asset Pricing Model	Ch. 9	Homework 4
May 13	Futures and Forwards	Ch. 22	
May 18	Options	Ch. 21	Homework 5
May 20	TBD		
May 25	TBD		Project 2
May 27	TBD		
Jun 1	Review		
Jun 3	Exam		

Academic Integrity

Exams are individual work and cheating will not be tolerated. Students must not glance at their neighbors' exams. Students must not change their answers after they have turned their exam in.

Check the student handbook for further information about cheating, plagiarism etc. Cheating of any kind may result in expulsion from the university. The Department of Economics will follow

university policy in case of academic dishonesty. These rules complement/supplement the university rules, which are spelled out at <http://www.washington.edu/uaa/advising/help/academichonesty.php>

Academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal from the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. **Moreover, a grade of zero can be assigned by the instructor for the course.**

Homework Policy

Students may discuss homework with one another, but all submitted homework must be your **own individual work.**