

Spring 2019

ECON 422
Capital, Investment, and Finance

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Lectures: Monday and Wednesday, 12:30-2:20pm, Room MGH 271
Office Hours: Monday, 2:30-4:30pm or by appointment

Introduction.

This course is an introduction to financial economics and asset pricing. We will cover the analytical tools and finance theory that Wall Street uses to value securities and corporations use to make investment decisions. Key topics are valuation of assets with net present value and no-arbitrage, asset markets and risk management.

I prefer being called by my first name, "Sungcheol" or last name "Kim." Please read this syllabus carefully, as it may answer many questions you have about the course. If you have questions after reading, you can contact me at the email address above.

Prerequisites.

Financial economics is a quantitative subject and we will use mathematical techniques that will include statistics and calculus. 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 basic math knowledge: Geometric series, Logarithms & exponents, Basic probability (expectation, variance, covariance), Linear Algebra (solution of equation systems), Calculus (derivatives)

Textbook.

We will use ***Bodie, Kane and Marcus (BKM) "Investments", 11th edition***. Previous editions can be used, but you need to figure out the corresponding pages on your own. I will follow the book for around 60% of the material, but you should make sure that you understand the lectures, especially if you aim for a very good grade in the class. For a review of intermediate micro-economics, I recommend checking out the following chapters of ***Varian's Intermediate Microeconomics***: "Intertemporal Choice", "Asset Markets", "Uncertainty" and "Risky Assets"

My background.

My research centers on the intersection of international economics with macroeconomics and finance. Before coming to the UW, I was a deputy director at the ministry of economics and finance in Korea and have given presentations at the IMF and World Bank. I have a special interest in capital flows to emerging economies. I am currently engaged in research on the determinants of capital inflows to small open economies after the 2008 global financial crisis. I am a Certified Public Accountant (CPA) in Washington State.

Office Hours.

I encourage you to come to office hours with questions related to homework or course material. Participating in office hours is particularly important if you find yourself struggling with the material. If your schedule conflicts with the office hours specified above and you want to meet me during other times when you are available, I ask that you send me an e-mail in advance so that I could be able to accommodate your needs. There will be no office hours during the first week.

Use of email.

Email is the most convenient way for you to keep in touch with me. I will answer simple, clarifying email questions.

<https://canvas.uw.edu/courses/1272948>

This website will have the syllabus and course readings. I will also post a "web version" of the lecture slides that constitute the class material after class. Note that these web accessible slides will be an incomplete version of the actual lecture slides. These slides will be made available after the lectures so you don't need to completely copy all figures and tables. According to department policy, all slides and problem sets are copyrighted material. Any redistribution of this material (e.g. posting it on coursehero) will be in violation of copyrights by the author.

Evaluation and Grading.

Midterm 35%, Final 40%, and Homework 20%, Participation 5%

The final grade will be curved. There is a (preliminary) grade scale on the basis of which I determine course grades. I will maintain a median grade for this course in the 3.1-3.4 range.

Exams.

There will be one midterm exam and one final exam in this course. Both exams will be in-class exams. All are closed book, closed notes, and not cumulative. You don't need a

bluebook. Unless otherwise specified, you may use any simple calculator with no programming capabilities. **Please be aware that in general no makeup exams will be given.**

If you cannot make an exam date, the following policy applies: major exceptions are only allowed in case of medical emergencies that concern either you or your family. In this case, please provide a certification by a doctor on the exam date, since later certification cannot be accepted (see Academic Conduct policies below). If you already know that you cannot make the final exam date, you will not be able to take this class. If you miss a midterm, I will **reweight the final and it will count 75%** instead of 40%.

If you are expected to miss the final, **you need to take this class later** since we don't have any makeup exam for the final exam.

Homework.

You will solve 6 problem sets at "Homework" in Canvas. You need to **upload your homework at Canvas**. The due date is every Sunday at 11:59 pm. In case of multiple-choice questions, you need to mark your choice. For the short-answer questions, you should show your work. **I will grade your work.** Solutions will be uploaded on Canvas after the due date.

Participation.

Five percent of your grade is based on class participation. Attending lectures is strongly encouraged. In particular, although the website may contain an incomplete version of the slides discussed during lecture, there will be more detailed explanations, discussion, and material in live lectures. The lecture notes will not be updated after the class. Lectures are exam relevant material, so students skipping lectures risk insufficient preparation for exams.

Teaching and Assignment Schedule (Subject to Change).

Below is a tentative schedule to help you plan ahead and think about course readings. More than likely the dates when we cover material will shift as we get behind or ahead, so I'll update you as these things change.

Week		Schedule of Readings	Assignment (Due)
Week 1	4/1 4/3	Introduction Present Value (HV Ch.11)	-
Week 2	4/8 4/10	Investment Decision Making Bond Pricing (BKM Ch.14, 15)	HW1 (Apr. 14)
Week 3	4/15 4/17	Term Structure (BKM Ch.14, 15) Stock Pricing (BKM Ch.18)	HW2 (Apr. 21)
Week 4	4/22 4/29	Random Variable, Expected Utility Theory (HV Ch.12)	HW3 (Apr.28)

Week 5	4/29 5/1	Exam 1 (4/29) Risk and Return (BKM Ch. 5, 6)	
Week 6	5/6 5/8	Portfolio Basics (BKM Ch.7) Portfolio with Multiple Assets (BKM Ch.7)	-
Week 7	5/13 5/15	Risk and Diversification	HW4 (May 19)
Week 8	5/20 5/22	CAPM (BKM Ch.9) Futures and Forward (BKM Ch.22)	HW5(May 26)
Week 9	5/29	Options (BKM Ch.20)	HW6(Jun 2)
Week 10	6/3 6/5	Option Valuation (BKM Ch.21) Exam 2 (6/5)	

Academic Conduct.

The economics profession depends on the maintenance of high professional and ethical standards among its members. Similarly, the Department of Economics expects its students to maintain high standards of academic conduct. The University of Washington has a Student Conduct Code (WAC 478-120) available at

<http://apps.leg.wa.gov/WAC/default.aspx?cite=478-120>

The Department of Economics has a policy on academic misconduct. Academic misconduct includes plagiarism, cheating on examinations or other individual projects or assignments, and the theft or alteration of other persons' work for the purpose of gaining academic credit or of enhancing grades.

Exam Taking Rules.

1. Material allowed during a closed book exam.

(a) All books, papers, notebooks etc. must be placed inside your bag (backpack etc.) and the bag must be securely and fully closed. If you do not have a bag, you must place all your material out of your reach (classroom window sill etc.)

(b) Only keep writing tools and basic calculators (i.e. simple 4-functions calculators). Graphing calculators or calculators with memories will not be allowed. Sharing of calculators is not permitted.

(c) Cellular phones must be turned off before entering the class and placed in your closed bag (not in your pocket). You are not allowed to use a cellular phone during an exam. Doing so will result in the termination of your exam time (your exam being taken from you at this point). Likewise i-pads or i-pods (or similar devices) are not allowed. The use of personal computers is not allowed during an exam.

2. Attendance and special accommodation

- (a) You are expected not to leave the room during the exam except in case of emergency. This includes restroom use; be sure to use the restroom before the beginning of the exam.
- (b) If you arrive late to an exam, you cannot expect to get extra time after the official end of the exam to make up for the missing time at the beginning.
- (c) If you have a documented disability, please show your instructor your documentation from the Office of Disability Resources for Students on the first day of class, so that your instructor can make all the necessary arrangements if you wish to take your exam in a separate place.