Economics 422A: Investment, Capital, and Finance

Autumn 2014
Instructor: Woo-Hyung Hong
Office: Savery 319F (Desk Number 5)
Office Hour: Friday 1:00 - 3:00 or by appointment
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Class Website: https://catalyst.uw.edu/sharespaces/space/whh3/22908

Course Description:
Economics 422 is an introduction to the basic concepts underlying finance theory. The theory of finance is concerned with the ways in which individuals and firms allocate resources through time.

The theory seeks to explain how the allocation of resources through time is facilitated by (a) firms which provide the means by which individuals physically transform current resources into resources available in the future (production-investment decision) and (b) capital markets which provide a mechanism by which individuals can exchange resources over time.

Students will learn basic details on a number of different security types and a number of major financial markets: stocks, bonds, options and futures. Relevant financial calculations will be presented as well as real world examples. Core models of the field will be presented with additional exposure to current trends in finance theory.

Required Textbook:
Selected chapters from Corporate Finance: the Core 3rd edition (by Berk and DeMarzo)

The required textbook is enough for our discussion. Additional materials used in class will be posted in the class website.

Optional Textbook:
1. Price Theory and Application, 6th ed. (by Jack Hirshleifer and David Hirshleifer)
2. Principles of Finance with Excel, 2nd ed. (by Simon Benninga)

Prerequisites:
2.0 in ECON 300; either ECON 311, STAT 311, MATH 390, STAT 390, or Q SCI 381

Grading:
- Two Exams = 80% (each of them accounting for 40% of the grade)
- Homework = 20%
- I reserve the right to take class participation into account in determining final grades.

The grading policy of the Department of Economics determines the range for the Median grade to be between 2.9 and 3.1. A distribution of the grades on a 4.0 scale will be determined from the raw scores out of 100 to maintain this policy.
**Course Policy**
- In order to pass this class, a student must take both EXAMs. This means that if a student skips one, he/she will fail automatically.
- If you will be away because of a university related activity (e.g., sports), let me know well in advance (within the first 3 weeks of the quarter) and arrangements may be made.

**Notice:**
- Reading is important. Read before you come to class and do suggested homework after class.
- No extra paper, exams or any type of assignment will increase your final grades.

**Academic Honesty:**
All work submitted, whether for exams or problem sets, must be your own, original work submitted solely in this class. Cheating and plagiarism will not be tolerated. More detailed information on proper academic conduct is provided on the handout attached to this syllabus. The Department of Economics will follow university policy in case of academic dishonesty. These rules are spelled out at:
http://www.washington.edu/uaa/advising/help/academichonesty

**Tentative Class Schedule (subject to revision):**

<table>
<thead>
<tr>
<th>Week</th>
<th>Learning subjects or Plans</th>
<th>Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>• Introduction to Fisher Model (Hirshleifer and Hirshleifer)</td>
<td>Ch. 3, 4, 5</td>
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</tbody>
</table>
| Week 2 | • Introduction to Fisher Model (Hirshleifer and Hirshleifer)  
• The Time Value of Money and Present Value Approach | Ch. 3, 4, 5  
Ch. 8 |
| Week 3 | • The Time Value of Money and Present Value Approach  
• Valuing Bond and Term Structure of interest rates | Ch. 3, 4, 5  
Ch. 8 |
| Week 4 | • Valuing Bond and Term Structure of interest rates  
• Valuing Projects and Firms | Ch. 8  
Ch. 6, 7, 9 |
| Week 5 | • Valuing Projects and Firms  
• Review of Random Variable, and Decision Making under Uncertainty | Ch. 6, 7, 9 |
| Week 6 | • Review of Random Variable, and Decision Making under Uncertainty  
• Midterm (Closed book and closed note exam) | Ch. 10  
Ch. 11 |
| Week 7 | • Introduction to Risk and Return  
• Introduction to Portfolio Theory | Ch. 11 |
| Week 8 | • The Capital Asset Pricing Model (CAPM)  
• Investor Behavior and Capital Market Efficiency | Ch. 11  
Ch. 13 |
| Week 9 | • Investor Behavior and Capital Market Efficiency  
• Introduction to Options | Ch. 13  
Ch. 20 |
| Week 10 | • Introduction to Options  
• Valuing Options | Ch. 20  
Ch. 21 |
| Week 11 | • Valuing Options  
• Final (Closed book and closed note exam) | Ch. 21 |

Note: The schedule would be modified as needed.