Course description This course is an introduction to capital markets and investments. It provides an overview of financial markets and teaches you tools for asset valuation that will be very useful in your future career. Specifically, we will survey global markets including policy issues posed by the current credit crisis. The course also lays the foundation for more advanced courses in finance. We will cover

1. The pricing of fixed income securities (treasury markets, interest rate swaps, futures etc)
2. Discussions on topics in credit, foreign exchange, sovereign and securitized markets
3. Private markets - private equity and hedge funds, etc.

We shall spend some time on equity markets and their derivatives, time permitting.

We will aim to take a hands-on approach in this course and to apply the concepts taught to review recent events in financial markets, e.g. the credit crisis. The course is somewhat quantitative in nature; you should be prepared to work with data and spreadsheets. Programming is not required.

Nevertheless, this is a basic foundations course, and does not assume much prior knowledge in finance. Consequently, the course emphasizes a few cardinal principles while getting into some institutional detail.

Tentative Class Plan (more details in class)
1. Introduction to net present value, internal rate of return
2. Fixed income: fixed income institutional features, bond pricing, yield to maturity, duration, term structure of interest rates, monetary policy, forwards, futures and Eurodollars
3. Credit: credit default swaps, credit rating, corporate and sovereign credit risk
4. Equity and Equity Options (optional)
5. Foreign Exchange Markets
6. Securitized Markets: asset backed securities, mortgage backed securities
7. Hedge funds, Private equity, etc
8. Project Discussions

I plan to bring in guest lecturers to cover quite a few topics. We can also schedule time for project discussion, by shifting around the other slots.

The mid-term and end-term exams are in-class. You can bring in a cheat sheet.

Homework assignments The assignments can be submitted in groups of 1-2. Please refrain from changing your groups during the course. A sincere effort is required to get a good grade in the homework. There will be only around 4 assignments, but somewhat long. Grading You score weights will be the best of the following three marking schemes:
(1) HW 20% (you can skip one), midterm 40%, final 40%
(2) HW 20% (you can skip one), midterm 30%, final 30%, project 20%
(3) HW 10% (all will be counted), midterm 40%, Final 50%

Reading materials I will distribute class notes which are self-sufficient for this course. In addition, the following (optional) textbooks are useful as background material throughout this course.

- Investments, by Bodie, Kane and Marcus, Irwin/McGraw Hill.
Solution manuals to the problems in the book are available on reserve in the business library (entitled "Student solutions manual to accompany Investments, seventh edition").

- **Fixed Income Markets, by Suresh Sundaresan**
  A fairly detailed book on fixed income with broad coverage

- **Bond Markets Analysis and Strategies, by Frank Fabozzi**
  A simpler book (but completely adequate) on fixed income with broad coverage

We will also mention the following book for the unit of Portfolio Allocation (Equities):
- **A Random Walk Down Wall Street.**

The book Investments covers the essential materials for the unit of Derivatives. If you'd like additional information on derivatives, I recommend the following book (optional), which is also available on reserve in the business library.

- **Fundamentals of Futures and Options Markets.** If you are comfortable with calculus, you can instead use the sister book Options Futures and other Derivatives. Both books cover similar topics except that one uses calculus and the other does not. **Classroom Schedule 614 Schermerhorn:**
  11/23 7:15pm
  11/30 7:15pm
  12/7 7:15pm