

**ECONOMICS DEPARTMENT
SCHOOL OF ECONOMICS, FINANCE AND BANKING
COLLEGE OF BUSINESS
SECOND SEMESTER 2011/2012**

COURSE CODE: EEM3043

COURSE: FINANCIAL ECONOMICS

PRE-REQUISITE: EEB2013 MICROECONOMICS; EEB2023 MACROECONOMICS

1.0 SYNOPSIS

This course introduces students to basic finance. It provides an overview of the discipline, principles, and key concepts in financial economics. Students learn the important equation, the net present value equation, and they apply it to calculate annuities, mortgage payments, bond market prices, stock market prices, and rates of return. Furthermore, students will learn the currency and commodity derivatives, and the methods to price them. Finally, the origins and problems of the 2008 Financial Crisis are examined in detail.

This course is useful in several ways. First, it helps the student to know how to manage financial resources. Second, it helps students to get better jobs if they seek employment in the business world.

2.0 OBJECTIVES

At the end of this course, the students are expected to:

- 2.1 Understand how the net present value equation is applied to a variety of financial securities. They use this equation to calculate either the market value or rate of return.
- 2.2 Understand the use and application of financial derivatives, such as futures, forwards, call and put options, credit default swaps, and derivatives based on market indexes.
- 2.3 Understand the financial theories and concepts.

3.0 COURSE LEARNING OUTCOMES

At the end of this course, students are expected to:

- 3.1 Understand the concept of finance.
- 3.2 Understand financial market and financial institutions.
- 3.3 Understand the investment decisions of firms.

3.4 Understand the three pillars of finance: time value of money, asset pricing, and risk management.

4.0 REFERENCES

Bodie, Z. Merton, R. and Cleeton, D. 2009. *Financial Economics*, 2nd ed. Pearson International Edition

Cecchetti, S. 2008. *Money, Banking and Financial Markets*, 2nd ed. Mcgrw-Hill, New York

Mishkin, F. 2009. *The Economics of Money, Banking, and Financial Markets*, 9th ed. Pearson International Limited

Miller, R. and VanHoose, D. 2004. *Money, Banking and Financial Markets*, 2nd ed. South-Western

5.0 COURSE CONTENTS

No.	Topics	References	Hours
1	OVERVIEW OF CORPORATIONS 1.1 Introduction to Finance 1.2 Advantages of a Corporation 1.3 Disadvantages of a Corporation 1.4 Corporate Management and Structure	Bodie, Chapter 1	3
2	FINANCIAL MARKETS AND INSTITUTIONS 2.1 The Financial System 2.2 Financial Institutions 2.3 Interest Rates and Rate of Return	Bodie, Chapter 2	6
3	TIME VALUE OF MONEY 3.1 Single Investment 3.2 Multiple Investments 3.3 Compounding Frequency 3.4 Annuities and Mortgages 3.5 Comparing Different Investments	Bodie, Chapter 4	6
4	VALUATION OF BONDS 4.1 Overview of Bonds 4.2 Valuation of Bonds 4.3 Yield to Maturity and Rate of Return	Bodie, Chapter 8	3
5	VALUATION OF STOCKS 5.1 Overview of Stocks 5.2 Valuation of Stocks 5.3 Earnings and Investment	Bodie, Chapter 9	3

6	CURRENCY AND COMMODITY DERIVATIVES 6.1 Currency and Commodity Derivatives 6.2 Futures and Forward Contracts 6.3 Currency and Commodity Options 6.4 Securitization 6.5 Special Derivatives	Bodie, Chapter 11	6
7	MARKET EVALUATION OF DERIVATIVES 7.1 Market Evaluation of Futures 7.2 Market Evaluation of European Options	Bodie, Chapters 14 and 15	6
8	CAPITAL ASSET PRICING MODEL 8.1 Capital Asset Pricing Model (CAPM) 8.2 Problems with CAPM	Bodie, Chapter 13	3
9	CAPITAL INVESTMENT DECISIONS 9.1 Project Evaluation 9.2 Examples	Bodie, Chapter 6	3
10	UNCERTAINTY, DEFAULT, AND RISK 10.1 Calculating Expected Returns and Risk 10.2 Default Risk and Other Risks 10.3 Credit Ratings	Bodie, Chapter 10	3
	TOTAL CREDIT HOURS		42 hours

6.0 METHODS OF TEACHING

Lectures, discussions, presentations, and assignments.

7.0 EVALUATIONS

First Examination	20%
Second Examination	15%
Homework Assignments	15%
Final Examination	<u>50%</u>
	100%