



Lahore University of Management Sciences

ECON 363-Economic of Investment and Finance

Summer 2024

To understand how to navigate course outlines, consult: How to Use a Course Outline (<http://surl.li/gpvuw>)

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Course URL (if any)	
Support Services	LUMS offers a range of academic and other services to support students. These are mentioned below, and you are encouraged to use these in addition to in-class assistance from course staff. For a complete list of campus support services available for you click here (https://advising.lums.edu.pk/#supportservices)

Course Basics				
Credit Hours	4			
Lecture(s)	Nbr of Lec(s) Per Week	4	Duration	1 hr:20 minutes
Recitation/Lab (per week)	Nbr of Lec(s) Per Week		Duration	
Tutorial (per week)	Nbr of Lec(s) Per Week		Duration	

Course Distribution	
Core	
Elective	yes
Open for Student Category	Undergraduate
Close for Student Category	

COURSE DESCRIPTION
<p>This course introduces students to the process of investment in financial markets, both at a practical level and the theoretical level. We will discuss various types of financial instruments in common use and the economic theories that explain how they are priced. First, we will define the meaning of investment by developing a one period consumption-investment model. Then we will discuss the traditional and discounting methods for investment appraisals. Financial markets and instruments will be discussed next. Then we will discuss the trade-off between returns and risks. An investment appraisal under uncertainty will also be discussed. Modern tools such as Derivatives, Options, Futures, and Swaps for hedging will be discussed at the very end.</p>

COURSE PREREQUISITE(S)	
<ul style="list-style-type: none"> • • • 	Principles of microeconomics Anti-req: FINN 353

COURSE OBJECTIVES



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<ul style="list-style-type: none"> ▪ ▪ ▪ ▪ ▪ 	<p>Introduce students to the concept of Real and Financial investment</p> <p>Introduce students the concept and trading of various financial instruments</p> <p>Enhance students understanding taking Investment decisions</p> <p>Introduce students to the concept of price of securities and its relationship with the interest rate</p> <p>Introduce students to the concepts of capital asset pricing (CAPM)</p> <p>Introduce students to Excel programing to construct, for example, efficient portfolio frontier</p>
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Learning Outcomes			
<ul style="list-style-type: none">••••••	After completing the course students are expected to learn/understand: The difference between nominal and real investment IRR and its calculations Present and future values of an asset The calculation of rate of returns CAPM, APT Derivates, price of options		
Grading Breakup and Policy			
Assignments	Sessional Exams	Final	
15%	35%	50%	
Note: There will be no midterm test. Instead, we have four sessional exams.			

Examination Detail	
Midterm Exam	<p>No:</p> <p>Combine Separate:</p> <p>Duration:</p> <p>Preferred Date:</p> <p>Exam Specifications:</p>
Final Exam	<p>Yes/No:</p> <p>Combine Separate:</p> <p>Duration: 2 hours</p> <p>Exam Specifications: structured questions</p>

Campus supports & Key university policies
<p>Campus Supports</p> <p>Students are strongly encouraged to meet course instructors and TA's during office hours for assistance in course-content, understand the course's expectations from enrolled students, etc. Beyond the course, students are also encouraged to use a variety of other resources. (Instructors are also encouraged to refer students to these resources when needed.) These resources include Counseling and Psychological Services/CAPS (for mental health), LUMS Medical Center/LMC (for physical health), Office of Accessibility & Inclusion/ OAI (for long-term</p>



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disabilities), advising staff dedicated to supporting and guiding students in each school, online resources (<https://advising.lums.edu.pk/advising-resources>), etc. To view all support services, their specific role as well as contact information click [here](https://advising.lums.edu.pk/#supportservices) (<https://advising.lums.edu.pk/#supportservices>).

Academic Honesty/Plagiarism

LUMS has zero tolerance for academic dishonesty. Students are responsible for upholding academic integrity. If unsure, refer to the student handbook and consult with instructors/teaching assistants. To check for plagiarism before essay submission, use similarity@lums.edu.pk. Consult the following resources: 1) Academic and Intellectual Integrity (<http://surl.li/gpvwb>), and 2) Understanding and Avoiding Plagiarism (<http://surl.li/gpvwo>).

LUMS Academic Accommodations/ Petitions policy

Long-term medical conditions are accommodated through the Office of Accessibility & Inclusion (OAI). Short-term emergencies that impact studies are either handled by the course instructor or Student Support Services (SSS). For more information, please see Missed Instrument or 'Petition' FAQs for students and faculty (<https://rb.gy/8sj1h>)

LUMS Sexual Harassment Policy

LUMS and this class are a harassment-free zone. No behavior that makes someone uncomfortable or negatively impacts the class or individual's potential will be tolerated.

To report sexual harassment experienced or observed in class, please contact me. For further support or to file a complaint, contact OAI at oai@lums.edu.pk or harassment@lums.edu.pk. You may choose to file an informal or formal complaint to put an end to the offending behavior. You can also call their Anti-Harassment helpline at 042-35608877 for advice or concerns. *For more information: Harassment, Bullying & Other Interpersonal Misconduct: Presentation* (<http://surl.li/gpvwt>)

COURSE OVERVIEW			
Sessions	Topics	Recommended Readings	Objectives/ Application
1,2,3,4	Traditional Theory of Investment	SL Chp.4,5,6	Understand the difference between real and financial investment
5,6,7,8	Investment Environment and Instruments	HL Chp.1,2,3,5	Distinguish between bonds, securities, equity
9,10,11,12,13,14	Rate of Return and Foundation of Risk Analysis	HL Chp.5,6,7, SL Chp.9	Calculation rate of returns and risk, SML, CAPM
15,16,17,18,19	Portfolio Theory under Risk	HL Chp. 8,9 SL Chp.12	Construction of portfolio and its mean return and risk
20,21	Arbitrage Pricing Theory	HL. Chp.10	Index models and the concept of APT
22,23,24	Options and Contracts	HL Chp.22,23	Understanding of different options (call and put options) and determination of their prices

Textbook(s)/Supplementary Readings



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Text Books

Introduction to Investments, 2nd Edition, Haim Levy, South-Western College (1999)

Investment Appraisal and Financial Decisions 5th Edition, Steve Lumby, Chapman & Hall (1994)

Additional Reading

Investment, 4th Edition, Bodie Zvi, Kane Alex and Marcus Alan., Irwin/McGraw-Hill, (1999)

Corporate Finance, 3rd Edition, Berk Demarzo 2014, Pearson Education, Inc.,