

ECONOMICS 173A: Financial Markets

Fall 2020

Basic information

Lectures	Tu/Th 12:30-13:50 LEDDN
Instructor	Prof. Alexis Akira Toda
Office hours	Th 14:00-15:00, ECON 211
Email	atoda@ucsd.edu
Webpage	https://sites.google.com/site/aatoda111/
TA	Jinhyeon Han, Sequoyah 140, jih420@ucsd.edu Tjeerd de Vries, Sequoyah 205, tjdevrie@ucsd.edu
Discussion sessions	Th 19:00-19:50 and 20:00-20:50, CSB 001

Course description

Economics 173A (Financial Markets) is an upper division course on finance. We study some institutional details on the financial markets, bond pricing (including duration analysis), optimal portfolio problem, mutual fund theorem, Capital Asset Pricing Model, and option pricing (including bounds on option prices, suboptimality of early exercise of American call options, put-call parity, binomial option pricing). The course requires good analytical skills (basic calculus).

Lectures are based on the textbook *Investments*, 11th edition, McGraw Hill by Bodie, Kane, and Marcus. The course will cover the following topics:

1. Introduction to financial markets (Chapters 1–4),
2. Bond pricing (Chapters 14–16),
3. Optimal portfolio and Capital Asset Pricing Model (Chapters 5, 6, 9)
4. Behavioral finance (Chapter 12),
5. Options pricing (Chapters 20–21).

I will be using slides that cover part of the textbook plus some additional materials. Due to the limited amount of lecture time, it may not be possible to cover everything. Students are responsible for studying the corresponding chapters after each class. The discussion sessions will mostly solve end-of-chapters exercises.

Textbook

As mentioned above, the required textbook is

- “Investments”, 11th edition, McGraw Hill by Bodie, Kane, and Marcus.

The e-textbook is provided to you through Canvas (and be charged to your student account) unless you opt out. Please see the YouTube video <https://youtu.be/ejrELj0r8eU> how to opt out. If you do a google search “bodie kane marcus investments 11th edition pdf”, you can find plenty of cheap options. I do not endorse any particular option and please decide at your own responsibility and risk.

Other recommended readings (not required) are:

- “A Random Walk Down Wall Street” by Malkiel,
- “The Richest Man in Babylon” by Clason.

The latter is no longer copyrighted and you can find free copies by googling.

Exams

There will be two midterms and a final. The majority of exam questions will be randomly selected from the end-of-chapter exercises in the textbook from chapters that have already been covered. Please mark your calendar:

Midterm 1 Thursday October 17, in class

Midterm 2 Thursday November 14, in class

Final Friday December 13, 11:30–14:30, location TBA

An exam on date t covers all materials taught up to date t . No one will be allowed to start an exam after the first person leaves it. The exam dates are non-negotiable and there are no make-up exams. If you miss a midterm for a documented, university approved reason (i.e., illness, family emergency, official university trip, etc.) the weight for that exam will be placed on the final. If you miss a midterm for another reason (i.e., oversleep, vacation, etc.) you will receive a zero for that exam. If you miss the final other than for a documented, university approved reason, you will automatically earn a letter grade F (fail).

During the exam, you are allowed to use a calculator (including a financial calculator), although no questions will require the use of a calculator. (You will receive full credit if you write correct expressions without actually calculating numerical values.) However, to be able to easily distinguish a calculator from a cell phone, *the calculator must be an old-fashioned, non-programmable one without a large screen or internet connection*, and you must put it on your desk for inspection before the exam starts.

Grades

Each of the midterm and final will be graded on some scale (say 0–100). Your course grade will be determined by the formula

$$G = 0.2M_1 + 0.3M_2 + 0.5F,$$

where G is the course grade and M_1, M_2, F are the scores on the two midterms and final. The course grade G will be converted to letter grades at my discretion (i.e., “curved”) at the end of the quarter. (So please don’t ask me questions like “What is the letter grade corresponding to x points in midterm?”, because I do not know the answer to and I will not answer to such questions.)

Regrade requests of exams must be made through a written statement *before* the start of class one week after the exam was first passed back. Extensions will only be permitted if you have a documented, university approved reason for missing the entire week after the exam was first passed back. If you request a regrade, I reserve the right to regrade your entire exam and your score could go up, down, or stay the same. My regrade decision is final.

Questions

The best opportunity to ask questions is *during* the class, for two reasons. First, you can resolve your question immediately (assuming—well—I know the answer). Second, your classmates are likely to have similar questions, so they can benefit from questions being resolved and I benefit by saving time. So, don't be shy, please ask questions. If you have a question outside of class that cannot be resolved by a Google search or discussing with your friends, please first ask your TA. If still unresolved, you can show up during my office hour listed above (no appointment necessary). I and the TAs reserve the right not to respond to questions by emails. Most questions can be resolved by Google searches; if not, please use the office hours.

Miscellaneous

- Email writing tips:
<https://sites.google.com/site/aatoda111/misc/email>
- Letter of recommendation policy:
<https://sites.google.com/site/aatoda111/misc/lor>

Academic integrity

I take academic dishonesty seriously. Any student found guilty of academic dishonesty will earn a failing grade for the course. In addition to this sanction, the Council of Deans of Student Affairs will also impose a disciplinary penalty.

UCSD policy:

<http://senate.ucsd.edu/manual/appendices/appendix2.pdf>

Facts about academic integrity:

<http://students.ucsd.edu/academics/academic-integrity/facts.html>

Consequences of cheating:

<http://students.ucsd.edu/academics/academic-integrity/consequences.html>