

FIN 3560
FINANCIAL MARKETS AND INSTRUMENTS
Syllabus

Fall 2011
Section 01, MW 11:30 pm – 1:05 pm
Tomasso 308
<http://faculty.babson.edu/goldstein>

Dr. Michael A. Goldstein
office hrs: by appointment
Office: Tomasso 322, tel: (781) 239-4402
as of September 23, 2011
Goldstein@babson.edu

I. Course Objective

This course is for those students who are interested in learning more about financial markets, instruments, and institutions. We will examine a myriad of financial markets, the instruments that trade on them, and the financial and governmental institutions that use or support these markets. In particular, we will cover interest rates, equity markets, the money, capital and mortgage markets, the foreign exchange market, the Federal Reserve, and some derivative markets.

The course will be taught as a mixture of lecture and class discussion. There will be a bit of cold calling at times, so it is best if you volunteer. To provide a unifying theme and to demonstrate the interconnectivity of the financial system, we will relate each chapter to the workings of the securities markets through that day's *The Wall Street Journal* throughout the course.

II. Learning Objectives:

By the end of this course, students should be able to:

- Calculate and use effective annual rates (EAR or EAY) appropriately when discounting
- Understand term structure, and how to calculate forward rates and estimate future spot rates
- Value bonds and stocks, including between payments
- Calculate and derive duration and understand its use
- Value a mortgage
- Use foreign exchange spot rates and forward rates to calculate Covered Interest Parity
- Understand futures, forwards, and options and their payoffs
- Determine the interest rate risk of a bank or financial institution
- Derive/Calculate the number of interest rate futures a bank needs to buy/sell to dynamically hedge its asset/liability interest rate exposure due to its duration gap

III. Required Text:

You can either by the custom coursepack in the Bookstore, or you can buy the actual book:

- Custom Coursepack in Bookstore,
or
- **Financial Markets and Institutions : A Modern Perspective** (4th Edition), by Anthony Saunders and Marcia Million Cornett, Irwin/McGraw-Hill, copyright 2009

You should also access the book's website at:

http://highered.mcgraw-hill.com/sites/0073382299/information_center_view0/. You can click on the Student Edition: http://highered.mcgraw-hill.com/sites/0073382299/student_view0/index.html.

You also need to read *The Wall Street Journal* . It is required reading EVERY DAY. (I am **not** kidding about this!) *You are expected to keep up with the readings at ALL times!* There are a variety of materials on my website (see URL above) which are also related to the class that you will need or will be helpful.

IV. Recommended Book

I have taught this before, and each year the students REALLY liked this book. You can get it through Amazon. It is very, very easy to read and fun and helps you understand how everything is connected!

Obscene Gestures of an Invisible Hand: Financial Doom and the Death of Culture - The Lighter Side, by Jeffrey J. Trester, copyright 2004

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V. Course Work and Grades

Finance is not an easy subject, and this is not an easy class. You will need to think, study, practice the problems at the end of the chapters, and be prepared for class to do well in this course. On the other hand, if you are willing to put in some time and effort, you should find the class quite rewarding.

There will be a midterm, a group project (which I will treat like a midterm in terms of grading) and a final. The second midterm will be a group term paper on a selected topic; it may be submitted to Turnitin or something equivalent. In addition, there will also be homework for you to do on your own. Thus, no one score will determine your overall grade in the class. **All** class members are expected to participate actively in the class.

The *initial* calculation for the course grade will use the weights below, although outstanding good (or bad) class participation may, at my option, be recognized by an increase (decrease) of a half grade or more, at my sole discretion:

Participation, Initiative, Professionalism, and Improvement (PIPI)	15%
Midterm 1	25%
Midterm 2 (Group Paper)	25%
Final	35%

All work and exams are cumulative. If an emergency or illness should force you to miss an examination or assignment/homework deadline, you *must* contact me *before* the test is given or the assignment is due.

NOTE: Dr. Goldstein reserves the right to change any aspect at any time, including, but not limited to, assignments, grading methods or relative grading weights, assignment or exam dates, or the course schedule. However, FINAL EXAMS may not be rescheduled.

Accommodations/Disabilities:

Any student who feels he or she may need an accommodation based on the impact of a disability should contact me privately and in a timely fashion to discuss his or her specific needs. Students must also contact the Manager of Disability Services at 781-239-4508 or in Hollister Hall to coordinate reasonable academic accommodations.

VI. Academic Honesty and Integrity

The standards and expectation of the Babson Honor Code and its academic honesty and integrity policies apply to this course as well as to any other course you are taking here. The policy is articulated in your Undergraduate Handbook. Failure of any student to take appropriate steps to fully understand the Code will not be an acceptable nor tolerated excuse for any violations.

You can find some information related to the Babson Honor Code at:

<http://www.babson.edu/undergraduate/student-life/community-standards/pages/honor-code.aspx>.

All students have an **obligation to act** according to the Babson Honor Code. Students may be required to affirm their understanding of and commitment to the Babson Honor Code by writing the following honor code pledge on every exam, paper, project, or other academic exercise:

“I pledge my honor that I have neither received nor provided unauthorized assistance during the completion of this work.”

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VII. Course Policies:

Please refer to the Undergraduate Student Handbook for the College's policies on lateness, absenteeism, and excuses. Those are all in effect.

Generally speaking, however, it is your responsibility to get out of class what you can and not disturb others around you. It is very important to me that you respect each person in the class. Please do not interrupt or interfere with their learning process. Unprofessional conduct will be counted against your PIPI score.

Computer and Mobile Phone Usage During Class

Misuse of computers during class will not be tolerated. This includes using computers for:

- instant messaging (MSN, AOL, Yahoo!, etc.) of any form
- Facebook, MySpace, Twitter
- web browsing not directly related to current class discussion
- looking at or engaging in inappropriate behavior or offensive material
- video games
- work for other classes

Students using computers for note taking are requested to sit in the last row of the classroom. Mobile phones should be turned completely off during class.

VIII. Homework

There may be a few assignments during the course of the semester which will be announced in class. However, besides this, students are generally expected to on their own try the problems at the back of each chapter and work through the answers themselves. **DOING PROBLEMS IS THE BEST WAY TO PREPARE FOR THE EXAMS!!!!**

IX. Course Schedule

Below is a tentative course schedule. This schedule is **SUBJECT TO CHANGE!!!**

Please note that there are **three outside-of-class enrichment sessions** that you need to attend; you should consider them part of this course.

Religious Observances:

Any student who faces a conflict between the requirements of this course and the observance of his or her religious faith should contact the instructor as early in the semester as possible. In such event, the instructor will provide reasonable accommodations that do not unduly disadvantage the student.

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<u>Date</u>	<u>READING ASSIGNMENT</u>	<u>CHAPTERS</u>
August 31	Introduction to Markets	Ch 1
September 7	Interest Rates (EAY)	Ch 2 p24-36
September 12	Interest Rates (Term Structure)	Ch 2 p44-56
September 14	Valuing Bonds	Ch 3 p61-76
September 19	Duration	Ch 3 p76-89 and appendices
September 21	Duration	Ch 3 Appendix 3
September 22 (Thurs)	Careers in Investments, 4:30 – 6:00 pm, Olin Hall 120	
September 26	Stock Markets	Ch 8 Appendix 3
September 28	Stock Markets	Ch 8
October 3	Securities Firms and Investment Banks	Ch 16
October 5	Mutual Funds and Hedge Funds	Ch 17
October 11 (Tuesday)	Bond Markets	Ch 6 and Appendix 5
October 12	Review of Material	
October 17	MIDTERM	
October 18 (Tuesday)	Market Outlook 5:00 – 6:00 pm (tentative), Olin Auditorium	
October 19	GROUP PROJECT DAY/Cutler Center Resource Review	
October 24	GROUP PROJECT DAY/Cutler Center Resource Review	
October 26	Money Markets	Ch 5
October 31	Mortgage Markets (Halloween)	Ch 7
November 2	“”	
November 7	Foreign Exchange Markets	Ch 9
November 9	“”	
November 14	Derivative Security Markets	Ch 10 and Appendix 10
November 16	“”	
	Raising Capital, 5:00 – 6:00 pm, Needham/Wellesley Room	
November 21	THANKSGIVING BREAK	
November 23	THANKSGIVING BREAK	
November 28	Managing Interest Rate Risk	Ch 22
November 30	Managing Interest Rate Risk with Derivatives	Ch 23 and Appendix 23
December 5	Managing Interest Rate Risk with Derivatives	Ch 23 SECOND MIDTERM DUE
December 7	LAST DAY OF CLASS / Course Review	
TBA	FINAL EXAM	