1. SUBJECT DESCRIPTION

The last several decades have brought forth rapid and profound changes to the investment industry. However, the basic principles of finance remain important to understand the fundamentals of financial markets.

In Finance I you studied key elements of how to evaluate financial returns: bringing future returns to the present (Net Present Value), evaluating the riskiness of assets, relating them to expected financial returns (Portfolio Theory and CAPM), and relating them to the concept of efficient markets, etc.

In Finance II we move from this high level of abstraction on securities to analyses of specific securities and security markets: debt, equity and derivatives. Thus, the focus of this course is on asset pricing of specific securities, with the aim of conveying the practical applications of investment theory.

2. OBJECTIVES AND SKILLS

The objective of this course is to build on the framework developed in Finance I to analyze financial markets. Throughout the course students will be given theories and illustrative examples of how to approach specific assets and asset markets, so that they can develop insights as to how to invest in them and, equally important, understand the information provided by asset markets.

To enable students to perform well and to obtain the most out of the course, preparation for each session is mandatory as the material is technical. The content section lays out the topics to be covered in the sessions, followed by the required advance preparation for each session.
3. CONTENT

PART 1: FIXED INCOME SECURITIES

SESSIONS 1 & 2
BOND PRICES & YIELDS

- Bond Characteristics, Pricing and Yields
- Bond Prices over Time, Default Risk & Bond Pricing, and the Yield Curve

SESSIONS 3, 4, 5, & 6
MANAGING BOND PORTFOLIOS

- Interest Rate Risk
- Passive Bond Management
- Convexity
- Active Bond Management

PART 2: SECURITY ANALYSIS

SESSIONS 7, 8, 9, & 10
MACROECONOMIC AND INDUSTRY ANALYSIS

- The Global Economy
- The Domestic Economy
- Business Cycles
- Interest Rates
- Demand and Supply Shocks
- Fiscal and Monetary Policy
- Industry Analysis

SESSIONS 12, 13, & 14
EQUITY VALUATION MODELS

- Valuation by Comparables
- Intrinsic Value versus Market Price
- Dividend Discount Models
- Price-Earnings Ratio
- Free Cash Flow: Valuation Approaches
- The Aggregate Stock Market

SESSIONS 15, 16, & 17
FINANCIAL STATEMENT ANALYSIS

- The Major Financial Statements
- Accounting versus Economic Earnings
- Profitability Measures
• Ratio Analysis
• Economic Value Added
• An Illustration of Financial Statement Analysis
• Comparability Problems
• Value Investing

PART 3: DERIVATIVES MARKETS

SESSIONS 18, 19, & 20
OPTIONS MARKETS

• The Option Contract
• Values of Options at Expiration
• Option-like Securities
• Exotic Options

SESSIONS 21, 22, & 23
OPTION VALUATION

• Option Valuation
• Binomial Option Pricing
• Black-Scholes Option Valuation
• Using the Black Scholes Formula
• Empirical Evidence

SESSIONS 24, 25, & 26
FUTURES MARKETS AND RISK MANAGEMENT

• The Futures Contract
• Mechanics of Trading in Futures Markets
• Future Markets Strategies
• Determination of Futures Prices
• Financial Futures
• Swaps

PART 4: WRAP UP

SESSIONS 27, 28, & 29
GROUP PRESENTATIONS
BASED ON PORTFOLIO PERFORMANCE EVALUATION

SESSION 30
FINAL EXAM
4. METHODOLOGY & EVALUATION

Your final grade in the course will be based on both individual and group work of different characteristics that will be weighted in the following way:

A. Class participation 10%
B. Eight problem sets 40%
C. Final group presentation & report 10%
D. Final Exam 40%
TOTAL 100%

A. TIME USE: STRATEGY

<table>
<thead>
<tr>
<th>TEACHING METHODOLOGY</th>
<th>WEIGHTING</th>
<th>TIME DEDICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lectures (in class)</td>
<td>(20)%</td>
<td>30 hours</td>
</tr>
<tr>
<td>Discussions (in class)</td>
<td>(3)%</td>
<td>5 hours</td>
</tr>
<tr>
<td>Exercises (in class)</td>
<td>(3)%</td>
<td>5 hours</td>
</tr>
<tr>
<td>Group work (outside class)</td>
<td>(23)%</td>
<td>35 hours</td>
</tr>
<tr>
<td>Individual studying (outside class)</td>
<td>(50)%</td>
<td>75 hours</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>150 hours</td>
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</tbody>
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B. CLASS PARTICIPATION

Three main criteria will be used in reaching judgment about your class participation:

**Depth and Quality of Contribution**
The most important dimension of participation concerns what it is that you are saying. A high quality comment reveals depth of insight, rigorous use of case evidence, consistency of argument, and realism.

**Moving Your Peers’ Understanding Forward**
Great ideas can be lost through poor presentation. A high quality presentation of ideas (in the problem sets and in the group presentation and report) must consider the relevance and timing of comments, and the flow and content of the ensuing class discussion. It demands comments that are concise and clear, and that are conveyed to generate discussion.

**Frequency**
Frequency refers to the attainment of a threshold quantity of contributions that is sufficient for making a reliable assessment of comment quality. The logic is simple: if contributions are too few, one cannot reliably assess the quality of your remarks. However, once threshold quantity has been achieved, simply increasing the number of times you talk does not automatically improve your evaluation. Beyond the threshold, it is the quality of your comments that must improve. In particular, one must be especially careful that in claiming more than a fair share of “airtime”, quality is not sacrificed for quantity. Finally, your attempts at participation should not be such that the instructor has to “go looking for you”. You should be attempting to get into the debate on a regular basis.
Attendance
University policy regarding mandatory attendance states that students should attend to at least 70% of the sessions. Absences do not need and should not be excused. We assume that most absences, whatever their cause, can be accommodated within the allowed 30%. Only on extremely special cases (ie, a long illness) the rule can be reconsidered and you should notify me for authorization. If a student exceeds the allowed 30%, he/she will get a 0 in the course.

C. GROUP WORK

Problem sets
Can be worked together in groups, and handed-in as one (group).

The point of the problem sets is to make a serious attempt to answer all questions. They are designed as practice for exams. You are expected to turn them in on time, meaning in class the day they are due. Problem sets turned in one session after they are due will get half the grade and no problem sets will be accepted later than the next class period after they are due. There will be one exception to this problem set policy: you will be given one “free” late hand-in. If for any reason you cannot turn your problem set on time, you may turn it up one week late (but no later) for full credit. This “freebie” can only be used ONCE. All other problem sets must be turned in on time in class to receive full credit. To use this one-time option, mark the top of your home work with “freebie” when you turn it in.

Group report and presentation
You are expected to complete a final project with your group and present it in written form. The project will give you the opportunity to reflect on what you have learnt in class and apply it to some practical problems.

More details of the project will be provided by the start of the course. Here are some aspects to bear in mind:

- Each group must complete one presentation and report and present it in class.
- The report will cover the last part of the syllabus: Portfolio Performance Evaluation.
- Each group will select a portfolio; data related to the portfolio picked and carry out an evaluation report using what has been learnt throughout the course in the context of Portfolio Performance Evaluation.
- Thus, Ch. 18 will be covered through students’ work in class and NOT enter the exam.
- For each report, there is an upper limit of ten pages of text (assuming 11-point font size, Times New Roman, double spacing) plus no more than 5 pages of exhibits.
- A hard copy of the document must be delivered to the professor in class before the discussion begins. You also have to send a soft copy via email.
- The report must be easy to read (consider using bullets, headings, etc.).
- The objective is it to give you practice writing concise executive summaries – the reader should believe that you have done a thorough analysis regarding the characteristics of your portfolio.
- The report should end with a recommendation on the portfolio picked (positive or negative), based on a methodology or set of methodologies.
- Good reports are concise, providing a fact-based rationale for your conclusions. The rationale should reflect a good understanding of the important issues at hand.
D. FINAL EXAM

The Final Exam will consist of four parts. The first part will check your understanding of financial concepts with multiple choice questions. The second part will review the assigned problem sets. The third part of the exam will focus on solving a new exercise for which you will be given all the necessary data. The final part will ask some questions regarding the presentations in class.

The use of calculators will be permitted on exams. The use of large-screen graphics calculators, however, will not be permitted. Please obtain a small screen calculator for the exam and learn how to use it prior to the exam. It is your responsibility to figure out how to work such a calculator before coming to the exam (e.g., how to raise a number to a higher power). It is strongly recommended that you practice your homework problems using the calculator you will use on the exam, so that you become comfortable with it. If you bring a large-screen graphics calculator to the exam, you will be asked to put it away and use a small screen calculator.

4.1 RETAKE POLICY

☐ Each student has 4 chances to pass any given course distributed in two consecutive academic years (regular period and July period).

☐ Students who do not comply with the 70% attendance rule will lose their 1st and 2nd chance, and go directly to the 3rd one (they will need to enrol again in this course next academic year).

☐ Grading for retakes will be subject to the following rules:

- Students failing the course in the first regular period will have to do a retake in July (except those not complying with the attendance rules, which are banned from this possibility).
- Dates and location of the July retakes will be posted in advance and will not be changed. Please take this into consideration when planning your summer.
- Retakes will always consist on an exam, subject to having passed the problem sets in the course.
- The maximum grade that a student may obtain in the retake will be 8 out of 10.

4.2 USE OF ELECTRONIC DEVICES IN CLASS

IN some classes, use of computers will be required. The professor will tell in advance.

CELL PHONES: If you carry one, please turn it off before entering the classroom. Please do not use iPhones or Blackberries during the lecture— if you must engage in e-communication during the lecture, please step out of the classroom to do so.