

Economics 71a: Introduction to Finance

Spring 2007: preliminary

Instructor

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Teaching Assistant

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Times:

- Class Times: Monday/Wednesday 2:00-3:30pm
- Office hours: TBA
- Gillian Kagin's office hours: TBA

Course Description

This is an introductory level course in finance. It is designed to give students an overview of some of the issues involved with the trading and pricing of securities in modern financial markets. We will look at several basic questions: What functions do financial markets provide? Who are the important participants? How do investors approach financial decisions? How do firms use and deal with financial markets to raise capital? What roles do regulators and government agencies play? We will cover many current topics which will include: bubbles, accounting practices, derivative markets, trading, and mutual funds.

Note: This is not a standard course in finance, and students wishing a more comprehensive background in finance should take Economics 171a. This course is designed primarily for those who are not economics majors, but are interested in being exposed to some of the basic issues in finance. Students who have taken Economics 171a cannot take 71a. Also, students may not take Economics 171a and Economics 71a in the same semester.

Prerequisites

1. ECON 2a, or permission of instructor.
2. Basic statistics, one from the following list: Econ83a, Math8a, Math36a or Math36b, Psych51a, Bus4a
3. Basic algebra.
4. Basic excel/spreadsheet

Readings

1. Mayo, *Basic Finance*, 9th edition, Thomson/Southwestern, 2007.
2. Malkiel, *A Random Walk Down Wall St.*, Norton, 2003.
3. Web links, and handouts.

Requirements/Grading: (These models may change.)

There will be two short quizzes (1/2 period) worth 30 percent, one midterm exam worth 30 percent, and a final exam worth 30 percent. Problem sets are worth 10 percent. Arrangements for conflicts can be made in advance, but you need to see me during the first two weeks of the semester for this.

Last minute conflicts and illnesses will be handled by rearranging the weights of the exams to reflect the missed work. (Weights will be moved to the other exams. Missing the midterm will split its weight between the quizzes. Missing a quiz will split its weight equally between the midterm and the other quiz.) No makeup exams will be given in these cases.

Academic Honesty

YOU ARE EXPECTED TO BE HONEST IN ALL OF YOUR ACADEMIC WORK. POTENTIAL SANCTIONS INCLUDE FAILURE IN THE COURSE AND SUSPENSION FROM THE UNIVERSITY. IF YOU HAVE ANY QUESTIONS ABOUT MY EXPECTATIONS, PLEASE ASK.

Disability Statement

IF YOU ARE A STUDENT WITH A DOCUMENTED DISABILITY ON RECORD AT BRANDEIS UNIVERSITY AND YOU WISH TO HAVE A REASONABLE ACCOMMODATION MADE FOR YOU IN THIS CLASS, PLEASE SEE ME IMMEDIATELY. PLEASE KEEP IN MIND THAT REASONABLE ACCOMMODATIONS ARE NOT PROVIDED RETROACTIVELY.

Course Outline

1. Ma x = Mayo, chapter x.
2. M x = Malkiel, chapter x.

1. Introduction:
 1. Why study finance?
 2. What is finance?
2. Components of the financial world
 1. Investment banks (Ma 2)
 2. Securities markets (Ma 3)
 3. Other intermediaries (Ma 4)
 4. Federal Reserve (skim Ma 5)
 5. Exchange rates (skim Ma 6)
3. Tools
 1. Time value of money (present values) (Ma 7)

- Readings: Ma 7
[Smart Money University](#)
- 2. Risk and return
Readings: Ma 8, M 9-10
[Smart Money University](#)
- 3. Accounting and financial statements
Readings: Ma 9
- 4. Investments
 - 1. Stocks
Readings: Ma 10
[Smart Money University](#)
 - 1. Stock basics
 - 2. Types of stocks
 - 3. Historical performance
 - 2. Stock valuation
Readings: Ma 11, M5, M6 (136-144), M8
 - 1. Forecasting earnings, dividends, and prices
 - 2. Simple present values
 - 3. Dividend valuation model
 - 4. Ratio valuations
 - 5. Malkiel's Firm foundations
 - 3. Bonds
Readings: Ma 12
[Smart Money University](#)
 - 1. Bond history
 - 2. Bond features and structure
 - 3. Bond ratings
 - 4. Trading bonds
 - 4. Bond valuation
Readings: Ma 13
 - 1. Easy valuation
 - 1. Present values
 - 2. Yield
 - 3. Yield to maturity
 - 2. Difficult issues
 - 1. Interest rates
 - 2. Defaults
 - 3. Call options
 - 5. Preferred Stock
Readings: Ma 14
 - 6. Derivatives
 - 1. Options Ma 28
 - 2. Futures Ma 29
 - 7. Returns: horizons and currencies
Readings: Ma 16 [Smart Money University](#)
 - 8. Investment companies
Readings: Ma 17 [Smart Money University](#)

9. Market efficiency and bubbles

Readings: M 2, M 3, M 4

5. Corporate finance

1. Business forms and taxes

Readings: Ma 18

2. Break-even analysis

Readings: Ma 19

3. Leverage

Readings: Ma 20

4. Cost of capital

Readings: Ma 21