

# FIN4504: Equity and Capital Markets

Fall 2017

<b>Section:</b>	2488
<b>Instructor:</b>	Guner Velioglu
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<b>Office Hours:</b>	Tuesday & Thursday: 4:00 p.m. – 5:00 p.m. (or by appointment)
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<b>Lecture:</b>	Tuesday & Thursday – Periods 7-8 (1:55-3:50 p.m.)
<b>Classroom:</b>	Stuzin Hall 104
<b>Textbook:</b>	<i>Essentials of Investments</i> , Bodie, Kane, and Marcus, 9 <sup>th</sup> Edition, McGraw-Hill/Irwin, 2012 (ISBN: 978-0-07-338240-1)

## Course Overview and Objectives

This course focuses on applications of financial theory to investments. It provides an in-depth discussion of fundamental principles related to equity securities and options for both institutional and individual investors. Objectives of this class include understanding

- (a) How security markets function
- (b) Tradeoff between risk and return
- (c) Modern portfolio theory and the Capital Asset Pricing Model
- (d) Efficient market hypothesis and behavioral finance
- (e) Option pricing model: binomial pricing model and Black-Scholes model

Though we consider the viewpoint of corporate investment professionals and institutional equity money managers at times, the primary focus in this course centers on personal financial decisions related to picking stocks and/or equity mutual funds. As we move through the material in this course, it's a good idea to ask yourself, "How would what we're talking about in class affect my real-world investment portfolio?" It is important to be skeptical about investment advice that you read in the popular press. There is a litany of gurus and investment strategies out there with lots of people trying to make commissions off your investment dollars. One ancillary goal of this course is that you be able to understand and critically evaluate investment advice from brokers and the financial press.

## Course Prerequisites

You are officially required to have taken and passed FIN 3403. A substantial portion of this course will be quantitative in nature and therefore requires you to use Microsoft Excel (or equivalent) and to be familiar with basic statistical concepts such as mean, variance, standard deviation, and correlation. Furthermore, basic calculus and algebra skills are a necessity.

## **Finance and Social Responsibility**

The effectiveness and perceived integrity of finance have been tested in recent years. Along with preventable excesses and regrettable distortions, financial innovation has, however, always been an effective means for society to achieve its goals, from insurance to consumption to saving. The power of financial innovation as a generator of inclusive prosperity and widespread well-being can (and should be) reclaimed. In this context, optimization of shareholder's value, for instance, may not be the only metric along which financial success is measured and should be placed, along with other traditional finance metrics, in the broader context of its contribution to society. To this extent, I consider technical, non-ideological, exchanges of ideas leading to a better understanding of the broader role of finance as a force for shared prosperity. The following recommended readings provides an initial opportunity for technical discussions of these issues as they relate to the topics covered in this course:

- Zingales, L., 2015. Does finance benefit society? *The Journal of Finance*, 70(4), pp.1327-1363.
- Shiller, R.J., 2013. Reflections on finance and the good society. *The American Economic Review*, 103(3), pp.402-405.
- Mishkin, F.S., 2011. Over the cliff: From the subprime to the global financial crisis. *The Journal of Economic Perspectives*, 25(1), pp.49-70.

## **Textbook**

The recommended text for the course is Bodie, Kane, and Marcus, *Essentials of Investments*, Ninth Edition, McGraw-Hill/Irwin, 2012. Any edition is fine. I specifically picked an old edition so that it would be cheap. If on the off chance that you missed a test question because your edition did not cover it and I also didn't cover it in the class, bring it into my office hours and you will receive the credit back.

Suggested, non-mandatory, additional readings:

- "Corporate Finance" by Welch, 2013 (3rd Edition) Available at: [book.ivo-welch.info](http://book.ivo-welch.info). This is a new textbook that covers in a modern and eloquent way the main concepts of corporate finance and some fundamentals of investments.
- "Efficiently Inefficient" by Pedersen, 2015 (Princeton University Press - 1st Edition). This is a bedside-table, entertaining book which barely contains any formulae. It is a nice reading which helps understanding how smart money invests and market prices are determined.

## **Class Notes**

I will make class notes available via the course E-Learning website. However, the notes will not be comprehensive. My intent is to provide you with something that will help you follow the lecture and focus on the important material of this class. I will be using the whiteboard most of the time, so there will be a lot of things discussed in class that will not show up on the class notes but will still be tested within the exam.

## **Class Attendance**

Class attendance is strongly encouraged, and constitutes a major portion of your participation grade. **You are allowed to miss a total of five classes without an adverse effect on your participation grade.** The only exception is the case where you miss more than five classes due to medical reasons, and you provide a satisfactory note from your doctor.

Materials presented in class are a blend of the topics covered in the textbook, lecture notes, and other sources; replicating what has been covered in class will be very difficult without regular attendance. Regular presence in the classroom will have a significant impact on your chances to succeed in this class. If you miss a lecture, you need to be in contact with a colleague and both ask for a copy of the class notes and inquire about what transpired in class.

## **Calculator**

You will want to have a calculator with you during lectures and especially for exams. Calculators with text storage capability such as those with graphing features are not approved for exams. A financial calculator, such as the HP-10BII used for FIN 3403, would be perfect.

## **Student Accommodations:**

Students requesting classroom accommodation must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the Instructor when requesting accommodation.

## **Expectations and Grading**

Presumably, you are taking this course because you are majoring in Finance and/or you have a keen interest in the subject. As a result, I have high expectations for your effort. Everyone will benefit from engaging in classroom discussion – and your participation will be noticed. Learning will be more efficient for everyone if the appropriate materials have been read prior to the lecture. Simply put, the stronger the participation level, the more you will get out of this class.

*General Policies:* For specific information regarding University of Florida grading policies, please refer to the undergraduate catalogue webpage:

<https://catalog.ufl.edu/ugrad/current/regulations/info/grades.aspx>

*Homework:* There will be five homework assignments throughout the semester.

*Exams:* There will be two exams. The final exam will be considered cumulative, though the material covered during the latter part of the course will be more heavily weighted. There will be **no** make-up exams unless you have a legitimate reason (such as health issues or conflict with other exams). In such cases you are required to provide documentation to take the make-up exam. Exams will likely be a combination of multiple-choice, short answer, and written problems. In-class examples, practice problems and homework should serve as good exam preparation tools.

*Grade Breakdown:*

Item	Weight	Comment
Midterm	30%	Units 1-6
Final	40%	Units 1-12
Participation	10%	
Homework	20%	Each HW will be weighted equally

*Grading Scale:*

Grade	Grade Percentage
<b>A</b>	$\geq 93\%$
<b>A-</b>	90-92%
<b>B+</b>	87-89%
<b>B</b>	83-86%
<b>B-</b>	80-82%
<b>C+</b>	77-79%
<b>C</b>	73-76%
<b>C-</b>	70-72%
<b>D+</b>	67-69%
<b>D</b>	63-66%
<b>D-</b>	60-62%
<b>F</b>	$\leq 59\%$

*Rounding and Letter Grades:* I will strictly follow standard rounding rules to two decimal places, so 92.45% is the minimum grade for an A. 92.449% is considered an A-. I will strive for a B average in the class. If this requires boosting grades with a curve, this will be done after the final exam. I will not reduce grades with a curve even if they are higher than a B average.

*Re-Grading Policy:* If you disagree with an exam/homework grade, please write a short explanation (or justification) of your concern. If you present me with the exam/homework assignment and your explanation during the seven *calendar* days following the day I return the material in class, I will re-grade the entire submission taking your comments into consideration. Please understand, I will re-grade the entire exam/homework assignment in question and the resulting grade may increase, stay the same, or even decrease. The result of the re-grade is the final grade and will be accepted as such by the student as part of my agreement to the re-grade in the first place. Under no circumstance will re-grading be considered outside the seven-day window.

**Course Website**

The course's E-Learning website will be the primary tool for course communication outside of the classroom. The website will contain important reference information such as schedules, practice problems, lecture notes, and announcements.

## **Contacting the Instructor**

Oftentimes, the best time to get a quick answer to a course related question is to catch me immediately before or after class, or during a break. If that doesn't work for you, or if you have a question that you feel will take more time to discuss, please try to attend my regular office hours. If you are unable to make my office hours, we can arrange an appointment. Email is generally the best way to contact me and I will try to check my email often, even when not in the office.

## **University of Florida Honesty Policy Regarding Cheating and Use of Copyrighted Materials**

*Academic Honesty:* As a result of completing the registration form at the University of Florida, every student has signed the following statement: "I understand that the University of Florida expects its students to be honest in all their academic work. I agree to adhere to this commitment to academic honesty and understand that my failure to comply with this commitment may result in disciplinary action up to and including expulsion from the University."

*Copyrighted Materials and Software Use:* All students are required and expected to obey the laws and legal agreements governing copyrighted material and software use. Failure to do so can lead to monetary damages and/or criminal penalties for the individual violator. Because such violations are also against University policies and rules, disciplinary action will be taken as appropriate.

## **Lectures**

The general topics to be covered throughout the course will be broken down into the following units. The corresponding reference chapter numbers are according to 9<sup>th</sup> edition of the textbook, and could be different in other editions.

Unit	Description	Reference
<i>Introduction</i>	Course outline/objectives and syllabus	Syllabus
<i>Unit 1</i>	Investments background	BKM Ch 1
<i>Unit 2</i>	Financial Securities	BKM Ch 2
<i>Unit 3</i>	Securities Markets	BKM Ch 3
<i>Unit 4</i>	Mutual Funds/Investment Companies	BKM Ch 4
<i>Unit 5</i>	Risk and Return	BKM Ch 5
<i>Unit 6</i>	Efficient Diversification	BKM Ch 6
<i>Unit 7</i>	CAPM & APT	BKM Ch 7
<i>Unit 8</i>	Efficient Markets & Behavioral Finance	BKM Ch 8/9
<i>Unit 9</i>	Equity Valuation	BKM Ch 13
<i>Unit 10</i>	Performance Evaluation & Portfolio Management	BKM Ch 18
<i>Unit 11</i>	Options Markets	BKM Ch 15
<i>Unit 12</i>	Option Valuation	BKM Ch 16

## Tentative Schedule

Below is the expected schedule for our time this semester. It is simply a **tentative schedule** and may change as we progress through the semester. I will try to incorporate topics that I feel are important for the class to learn while trying to ensure that we hit on topics I feel students are most interested in.

Week	Date	Day	Agenda	Other
1	23-Aug	Tuesday	Introduction/Unit 1	
	25-Aug	Thursday	Unit 1	
2	30-Aug	Tuesday	Unit 2	
	1-Sep	Thursday	Unit 3	
3	6-Sep	Tuesday	Unit 3	
	8-Sep	Thursday	Unit 4	<b>HW1 assigned</b>
4	13-Sep	Tuesday	Unit 5	<b>HW 1 due</b>
	15-Sep	Thursday	<b>No Class<sup>1</sup></b>	
5	20-Sep	Tuesday	Unit 6	
	22-Sep	Thursday	Unit 6	
6	27-Sep	Tuesday	Unit 6	<b>HW2 assigned</b>
	29-Sep	Thursday	Review	<b>HW 2 due</b>
7	4-Oct	Tuesday	<b>Midterm</b>	
	6-Oct	Thursday	Unit 7	
8	11-Oct	Tuesday	Unit 7	
	13-Oct	Thursday	<b>No Class<sup>2</sup></b>	
9	18-Oct	Tuesday	Unit 7	
	20-Oct	Thursday	Unit 8	
10	25-Oct	Tuesday	Unit 8	<b>HW3 assigned</b>
	27-Oct	Thursday	Unit 9	<b>HW 3 due</b>
11	1-Nov	Tuesday	Unit 9	
	3-Nov	Thursday	Unit 10	
12	8-Nov	Tuesday	Unit 10	<b>HW4 assigned</b>
	10-Nov	Thursday	Unit 11	<b>HW 4 due</b>
13	15-Nov	Tuesday	Unit 11	
	17-Nov	Thursday	Unit 12	
14	22-Nov	Tuesday	<b>No Class - Thanksgiving</b>	
	24-Nov	Thursday	<b>No Class - Thanksgiving</b>	
15	29-Nov	Tuesday	Unit 12	<b>HW5 assigned</b>
	1-Dec	Thursday	Review	<b>HW5 due</b>
16	6-Dec	Tuesday	<b>Final</b>	
	8-Dec	Thursday	<b>No Class</b>	

<sup>1</sup> 5<sup>th</sup> International Conference on Credit Risk.

<sup>2</sup> FMA annual meeting.