SYLLABUS

COURSE SYNOPSIS

The goal of this course is to provide a framework for understanding the key theoretical and practical models used in the financial world. After introducing some basic pricing and valuation tools, we will address how to use these tools to provide a foundation on how financial assets are priced in the marketplace. We will go on to examine the tradeoffs between risk and return, and explore optimal portfolio selection and analysis.

CLASS MEETING TIMES AND FORMAT

Classes will be in a lecture format, but I encourage students to ask questions and to challenge ideas and concepts that are introduced. I will hold weekly office hours, and will also be available at other times by appointment.

Class attendance is essential, as much of the material that we will cover is not in the (optional) textbook, and the lecture handouts by themselves are not sufficient to understand the material fully. Repeated absence from class is likely to have a negative impact on your grade, as I will count anything that I say in class to be fair game for questions in problem sets and exams.

TEXTS:

Lecture Notes: Will be posted on Sakai
Brealey and Myers: Principles of Corporate Finance  OPTIONAL

ASSIGNMENTS, PROJECTS, EXAM AND GRADING:

Your grade for this course will be based on a combination of 8 problem sets (40%), 1 team project (10%), a midterm (15%) and a final exam (35%).

Problem Sets

There will be eight (8) problem sets over the course of the semester, which will typically be posted on Sakai on Wednesdays, to be handed in at the beginning of the next Monday class. Graded problem sets will be put in a box outside my office door, typically within one week of being submitted. Problem set grades will also be entered into Sakai.

Problem sets may not be handed in late under any circumstances. I understand that there may be exceptional circumstances relating to illness, family emergency, etc. that may prevent you from being able to submit every problem set on time. For this reason, I will drop the lowest problem set score for
each student before calculating final grades for the class. Please only use this “free pass” if you really need it! [NOTE: This free pass does not apply to the Team Project.]

While I encourage students to collaborate on problem sets, each student must hand in his or her own completed version. If you work with others on the problem sets, bear in mind that the final exam is based on independent performance, which should temper your desire to ‘free-ride’ on problem sets, rather than participating actively in the group effort.

Be aware that accuracy is an important component of the grade received on all problem sets, projects, and the final exam. In other classes, you might lose just one mark if you use the right method but make a numerical error and arrive at the wrong solution. You should not assume that this type of grading policy will apply in this course. Clear and lucid presentation of your solutions will also work in your favor.

Some problem sets, as well as the competition, will necessitate the use of the spreadsheet software Excel. If you are unfamiliar with Excel, this will be an excellent opportunity to get some experience with it. It is used throughout the business world, and especially in finance/economics/accounting-related fields.

Team Project

An Asset Allocation competition, sponsored by BlackRock.

- This competition is open to all Duke sophomores and juniors, not just students in Econ 372. Hence sophomores and juniors in Econ 372 may form teams with other sophomores & juniors who are not in this class, and in fact are encouraged to do so.
- Seniors and MA students may only form teams among themselves; that is, they may not form teams with any sophomores or juniors, and may only form teams with students registered in Econ 372/572.

Your team’s grade in the Team Project will count towards your overall course grade. Sophomores and juniors may also be selected to present their Team Project to a Panel of visitors from BlackRock. Seniors and MA students are not eligible to present their work to the Panel.

Midterm

The midterm exam will be on Wednesday October 7 in class (10:05 – 11:20), and will include material covered up to this point in class.

Final Exam

The final exam for the course is cumulative, and will take place on the date and time specified on the university exam calendar: at 2pm – 5pm on Thursday, December 10 in our regular classroom.
**Bloomberg Aptitude Test (BAT)**

The BAT is a general finance knowledge test, utilized by students to demonstrate their interest in and knowledge of the financial markets; and by employers in the financial markets as an incremental measure of a candidate’s suitability for a particular role. The test is multiple choice, takes two hours, and covers a range of topics such as Economics, News Analysis, Analytical Skills, and Chart and Graph Analysis.

The test will be offered at Duke on both **Sunday, October 18** and **Sunday, October 25** [time and location TBD]. Students’ scores in this optional exercise have the potential to increase their overall grade in the class by up to 2%. Since I do not “curve” the grade for this class, you cannot hurt your overall grade by choosing not to participate in the BAT test – however, you can improve your grade by taking the test and performing well relative to your peer group (other students in the class who choose to take the BAT).

I will make a large sample of BAT test questions available as we get close to the BAT test date. You can also learn more about the BAT on the web, at [http://about.bloomberginstitute.com/](http://about.bloomberginstitute.com/)

**Regrade Policy**

Graded problem sets will be placed in a box outside my office within one week of the submission date. The grades will also be entered into Sakai. **Any regrade requests should be submitted, in writing, within 7 days of the problem set being returned to you – i.e., within 14 days of the problem set submission date.** If you do not submit your re-grade request within this time, I will not adjust the grade under any circumstances.

If you wish for a regrade on the midterm exam, that must also be submitted within 7 days of the exam being returned to you.
COURSE SCHEDULE

Bond Markets


*Problem Set 1 (due Sep 7), Problem Set 2 (due Sep 14)*

Equity Securities


*Problem Set 3 (due Sep 21)*

Introduction to Portfolio Theory


*Problem Set 4 (due Sep 28)*

Midterm Exam, in class, Wednesday, October 7

PROJECT: BLACKROCK ASSET ALLOCATION COMPETITION:

*Competition registration deadline for sophomores and juniors, Friday, September 25.* This competition is open to all Duke sophomores and juniors, regardless of whether they are registered in Econ 372.

- Sophomores and Juniors will register online for the competition, and are welcome to form teams with sophomores and juniors who are not in Econ 372.
- Seniors and MA students do not need to register online, and may only form teams with other seniors and MA students enrolled in Econ 372/572.
- *Competition Guidelines* available to all students on Wednesday, September 30.

*Deadline for report submission: Monday, October 19*

- Sophomores and Juniors will submit multiple copies of their presentation to Jennifer Valentyn in Soc Sci, following directions on the competition website.
- Seniors and MA student teams will submit one copy of their research report to Professor Rasiel at the beginning of class, and are not eligible to present at the BlackRock panel.

Bloomberg Aptitude Test (BAT)  *Sunday, October 18 and 25, date and time TBD*

Optional: students achieving above a certain score in this optional test will earn up to 2% increase in their overall course grade. It will not hurt your grade if you are unable or choose not to do the test.
Capital Asset Pricing Model (CAPM)


Problem Set 5 (due Oct 26), Problem Set 6 (due Nov 2)

Performance Measurement


Problem Set 7 (due Nov 9)

Futures


Problem Set 8 (due Nov 23)

Exam Review: November 30 & December 2

Final Exam
Thursday, December 10, 2pm – 5pm