

ECN 301 Financial Theories and Application

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Office Hour: to be announced in the beginning of the semester

Semester: Spring

DESCRIPTION:

In the first part of this introductory course, we begin by reviewing the financial market and some commonly seen financial instruments such as bond and mortgage. We will learn how these financial instruments work and how their prices are determined.

In the second part of this course, we focus on stocks, and introduce the theory of portfolio and the Capital Asset Pricing Model, which explores the relationship between risk and return. Then we develop the concept of cost of capital, which determines the investors' expected rate of return on the company.

In the final part of this course, we introduce the concept of derivatives, such as futures, forwards, and options. We will show that derivatives are designed as a hedge against the fluctuations in the asset prices.

OBJECTIVES:

The primary objective of this course is for students to familiarize themselves with the most fundamental financial theories, and to develop the ability of applying theories to the real financial world problems.

Expected Academic Background:

Students are strongly required to have completed Algebra and Statistics before taking this course.

STUDY MATERIALS:

Textbook:

Fundamentals of Corporate Finance, Brealey, Myers, and Marcus, McGraw Hill (the latest edition)

Other References for Advanced Study:

Modern Investment Theory, Robert Haugen, Prentice Hall (the latest edition).

COURSE FORMAT AND ACTIVITIES:

In general, the concepts or theories for each topic will be presented first, and then students are assigned exercises or case studies to apply the concepts and tools. This “learning through doing” approach can strengthen students’ understanding of the financial knowledge, and will be beneficial in developing the ability of applying the analytical framework to the real business world.

ASSESSMENT:

First Mid-term Exam: 15%

Second Mid-term Exam: 15%

Comprehensive Final Exam 30%

Class Discussion/Exercises: 40%

SCHEDULE:

1. FINANCIAL MARKETS (Ch2)

2. INTEREST RATE (Ch4)

3. MORTGAGE (Ch4)

4. BONDS (Ch5)

MID-TERM EXAM 1

6. STOCKS (Ch10)

7. PORTFOLIO THEORY (Ch 10)

8. CAPM (Ch11)

MID-TERM EXAM 2

10. STOCK VALUATION(Ch6)

11. WACC (Ch12)

12. DERIVATIVE(Ch24)

FINAL EXAM