

**DEPARTMENT OF ECONOMICS  
DELHI SCHOOL OF ECONOMICS  
UNIVERSITY OF DELHI**

**Minutes of Meeting**

**Subject :** B.A. (Hons.) Economics, Sixth Semester – Optional Papers  
**Course :** 28 – Financial Economics  
**Date of Meeting :** 11<sup>th</sup> January, 2017  
**Venue :** Department of Economics, Delhi School of Economics  
University of Delhi, Delhi – 110 007  
**Chair :** Abhijit Banerji

**The following teachers attended the meeting:**

1. Abhishek Singh, St. Stephen's College
2. Animesh Naskar, Hans Raj College
3. Niti Bhutani, Hindu College
4. Rajeev Parashar, LSR
5. Ashish Kumar Sedai, IP.
6. Anita, Kalindi college
7. Rachna Mathur, SBSC(M)
8. Ram Gati Singh, SLC(E)
9. Nishtha Sadana, Kamla Nehru College
10. Nitish Kashyap, Miranda House
11. Aasheerwad Dwivedi, SRCC.
12. Mamta Lamba, CVS.
13. Gunjit Kaur, Khalsa College.

**Readings:**

David G. Luenberger, Investment Science, Indian edition, 2012

Basu, Sankarshan, Hull, John C., Options, Futures and Other Derivatives, Pearson Education, Inc, 8<sup>th</sup> edition, 2013.

Brealey, Richard A., Myers, Stewart, C., Allen, Franklin, Mohanty, Pitabas, *Principles of corporate finance*. Tata McGraw-Hill Education, 10<sup>th</sup> edition, 2013.

Copeland, Weston. Shastri and Katz, "Financial theory and corporate policy". Pearson 4<sup>th</sup> edition,

Bodie, Kane & Marcus, "Investments", Tata McGraw-Hill Company Limited, 10<sup>th</sup> edition.

## **Topic wise readings with their weightage (%) in semester examination**

### **1. Investment Theory and Portfolio Analysis (40%)**

**a) Deterministic cash flows Streams:** Basic theory of interest; discounting and present value; internal rate of return; evaluation criteria; fixed-income securities; bond prices and yields; interest rate sensitivity and duration; immunisation; the term structure of interest rates; yield curves; spot rates and forward rates.

David G Luenberger: Chapter 2 The Basic Theory of Interest (excluding 2.6, Theorem on PDV & Theorem on IRR)

Chapter 3 Fixed-Income Securities (excluding 3.7)

Chapter 4 The Term Structure of Interest Rates (4.1 to 4.4 )

**Readings for Teacher:** Bodie, Kane & Marcus: chapter-14, 15 & 16.

**Suggested Problem Set:** David G Luenberger: Chapter-2: Exercises-1,2,3 & 5.

Chapter-3: Exercises-1, 5, 6, 7, 9, 11, 12 & 14

Chapter-4: Exercises-, 2, 3, & 7.

Bodie, Kane & Marcus: Exercises of chapter 14, 15 & 16

**b) Single –period random cash flows :** Random asset returns; portfolios of assets; portfolio mean and variance; feasible combinations of mean and variance; mean-variance portfolio analysis: the Markowitz model and the two-fund theorem; risk-free assets and the one-fund theorem.

David G luenberger: Chapter 6 Mean-Variance Portfolio Theory [excluding section-6.2, example-6.5, 6.7, 6.10, 6.11, 6.12 & 6.13, nonnegativity constraint (page-160-161) and solution method page-167-168)]

**Readings for Teacher:** Copeland, Weston, Shastri & Katz: chapter-5.

**Suggested Problem Set:** David G luenberger: Chapter-6: Exercises-1, 3, 4 & 5.

Copeland, Weston, Shastri & Katz: chapter-5: Exercises-5.5, 5.9, 5.11 & 5.13.

**c) CAPM :** The capital market line; the capital asset pricing model; the beta of an asset and of a portfolio; security market line; use of the CAPM model in investment analysis and as a pricing formula.

David G Luenberger : Chapter 7 The Capital Asset Pricing Model (excluding 7.6 & 7.8)

**Readings for Teacher:** Copeland, Weston, Shastri and Kartz: chapter-6.

**Suggested Problem Set:** David G Luenberger: Chapter-7: Exercises-1, 2, 3 & 6.

Copeland, Weston, Shastri & Katz: chapter-6: Exercises-6.2, 6.8, 6.10, 6.11 & 6.16.

## **2. Options and Derivatives (40%)**

### **Introduction to derivatives and options; forward and futures contracts; options; other derivatives**

Basu & Hull Chapter-2: Mechanics of futures markets (2.1 to 2.4 & 2.11)

#### **Forward and future prices**

Basu & Hull Chapter-5: Determination of forward & futures prices (5.1 to 5.5, 5.9, 5.11 & 5.12)

**Suggested Problem Set:** Basu & Hull Chapter-5:

#### **Stock index futures & the use of futures for hedging**

Basu & Hull Chapter-3: Hedging strategies using futures

**Suggested Problem Set:** Basu & Hull Chapter-3: 3.1-- 3.25 & 3.26

#### **Interest rate futures & duration-based hedging strategies**

Basu & Hull Chapter-6: Interest rate futures (6.1 to 6.4) [exclude page-158 & 159]

**Suggested Problem Set:** Basu & Hull Chapter-6: 6.1, 6.2, 6.4, 6.7, 6.8, 6.9, 6.11, 6.12, 6.15, 6.16, 6.17, 6.18, 6.23, 6.24 & 6.25.

### **Option markets; call and put options; factors affecting option prices; put-call parity**

Basu& Hull Chapter-9: Mechanics of options markets (9.1 to 9.7); Chapter-10: Properties of stock options

**Suggested Problem Set:** Basu& Hull Chapter-9: 9.1—9.22, 9.23 & 9.25.  
Chapter-10: 10.1---10.19, 10.22, 10.23 & 10.26.

### **Option trading strategies: spreads; straddles; strips and straps; strangles**

Basu& Hull Chapter-11: Trading strategies involving options (11.1, 11.2 & 11.3)

**Suggested Problem Set:** Basu& Hull Chapter-11:11.1 –11.5, 11.8—11.11, 11.13, 11.16, 11.20, 11.21 & 11.22.

### **The principle of arbitrage; discrete processes and the binomial tree model; risk neutral valuation<sup>1</sup>**

Basu& Hull Chapter-12: Binomial trees.

## **3. Corporate Finance (20%)**

### **Patterns of corporate financing: common stock; debt; preferences; convertibles**

Brealey, Myers et al. Chapter-14: An Overview of Corporate Financing [14.1, 14.2(Common Stock & Preferred Stock) & 14.3]

### **Corporate debt and dividend policy**

Brealey, Myers et al. Chapter-16: Payout Policy (16.1 to 16.3 & 16.5)

### **Capital structure and the cost of capital; the Modigliani-Miller theorem**

Brealey, Myers et al. Chapter-17: Does Debt Policy Matter? [Exclude 17.4]

**Suggested Problem Set:** Only solved examples of Chapters-14, 16 & 17.

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<sup>1</sup> This topic will not be examined in the final examination.

**Questions Pattern in end semester examination:** The full marks for the paper will be 75 and there will be three sections that contain a total of 8 questions. Each question will carry 15 marks. At least one question has to be attempted from each section. Scientific calculators can be allowed during the examination and students will also be provided with the tables of Interest Factors.