

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

**Minutes of Meeting**

Subject : B.A. (Hons.) Economics, Sixth Semester – Optional Papers (DSE)  
Course : Financial Economics, CBCS  
Date of Meeting : 11.1.2018  
Venue : Department of Economics, Delhi School of Economics, University of  
Delhi, Delhi – 110 007  
Chair : Prof. Abhijit Banerji

Attended by:

<b>S.No.</b>	<b>Name</b>	<b>College</b>
1	Papiya Ghosh	Sri Venkateswara College
2	Manavi	IP College
3	Ritika Aggarwal	PGDAV College
4	Archana Jain	Delhi College of Arts and Commerce
5	Animesh Naskar	Hans Raj College
6	Malabika Pal	Miranda House
7	Aasheerwad Dwivedi	SRCC
8	Vaibhav Puri	Sri Guru Gobind Singh College of Commerce
9	Rakesh Kumar	ARSD College
10	Suresh Kumar	Kalindi College
11	Nitish Kashyap	Hindu College
12	Rajeev Parashar	Lady Shri Ram College

- There was a productive discussion of the course contents and its teaching.
- It was noted that one or more of the textbooks had new editions in the market. But since teaching has already begun, it was agreed that any new edition would be incorporated into the syllabus only from the following year.
- A few changes were made to the existing syllabus. This included a chapter from Brealey and Myers in Section 1, and a subsection on the Efficient Market Hypothesis in Section 3.
- All revisions are reflected in the attached syllabus.

## 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 & 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 Flow 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.

Brealey, Richard A., Myers, Stewart, C., Allen, Franklin, Mohanty, Pitabas:

Chapter 5: Net Present Value and Other Investment Criteria (Section 5.3, pages 115-123)

David G Luenberger:

Chapter – 3: Fixed-Income Securities (Full Chapter)

Chapter – 4: The Term Structure of Interest Rates (4.1 to 4.3)

**Reading for Teachers:** Bodie, Kane & Marcus: Chapters -14, 15 & 16.

**Suggested Problem Set:** David G Luenberger:

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

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

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

Brealey, Richard A., Myers, Stewart, C., Allen, Franklin, Mohanty, Pitabas:

Chapter 5: Exercises – 2, 3, 4, 5, 6, & Intermediate Problems 10, 12, 13

**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)]

**Reading for Teachers:** 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)

**Reading for Teachers:** Copeland, Weston, Shastri & Kartz: Chapter - 6.

**Suggested Problem Set:** David G Luenberger: Chapter-7: Exercises -1, 2 & 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 (Full Chapter)

**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\***

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.

#### **The Efficient Market Hypothesis\***

Bodie, Kane and Marcus: Chapter 11

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

**\*These topics will not be examined in the final examination.**