

**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 : 11th December, 2014
Venue : Department of Economics, Delhi School of Economics, December, 2014
University of Delhi, Delhi – 110 007
Chair : Dr. U.B. Sinha

Attended :

1. Abhishek, St. Stephen's College
2. AnimeshNaskar, Hans Raj College
3. Dr. Geeta, Dyal Singh College
4. MeeraMalhan, Delhi College of Arts & Commerce
5. Nandini Dutta, Miranda House
6. Pragya Nayyar, SGTB Khalsa College
7. Dr. RachnaMathur, SBSC(M)

Readings:

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

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

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

Copeland, Weston. Shastri&Katz, "Financial theory and corporate policy". Pearson 4th edition,

Bodie, Kane & Marcus, "Investments", Tata McGraw-Hill Company Limited, 10th 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&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 valuation¹

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.

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.

¹ This topic has least weightage in the evaluation.

