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

**Minutes of Meeting**

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| Subject : | B.A. (Hons.) Economics, Sixth Semester – Optional Papers (DSE) |
| Course : | Financial Economics, CBCS |
| Date of Meeting : | 16.01.2020 |
| Venue : | Department of Economics, Delhi School of Economics, University of Delhi, Delhi – 110 007 |
| Chair : | Abhijit Banerji |

Attended by:

| S.No. | Name | College |
|---|---|---|
| 1 | Mamta Lamba | College of Vocational Studies |
| 2 | Nupur Kataria | Maitreji College |
| 3 | Ankit Joshi | Sri Venkateswara College |
| 4 | Manavi Jain | IP College for Women |
| 5 | Neha Gupta | Kirorimal College |
| 6 | Rakesh Kumar | A.R.S.D. College |
| 7 | Pankaj Khandelwal | Janaki Devi Memorial College |
| 8 | Vaibhav Puri | S.G.G.S. college of Commerce |

- There was a productive discussion of the course contents and its teaching.
- ***No changes are to be made in the syllabus this semester. The syllabus last year will continue, and is reproduced in detail below.***
- There was a discussion of LOCF, which will begin next year. With this in view, there was a discussion of the merits and demerits of replacing the chapters from Luenberger (for Section 1 of the course) with corresponding material from Bodie, Kane and Marcus. While the discussion was not conclusive, teachers of the course not present at the meeting could also form an opinion of how these books compare for Section 1. One of the participants suggested teachers could also read / look at the textbook by Danthine and Donaldson (Intermediate Financial Theory) and see what it may have to offer in future renderings of this course.

## 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 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.**