Minutes of Meeting

Subject: B.A. (Hons.) Economics, Fifth Semester – DSE HE54
Course: Financial Economics, LOCF
Date of Meeting: 19.07.2021
Venue: Department of Economics, Delhi School of Economics, University of Delhi, Delhi – 110 007
Chair: Prof. Uday Bhanu Sinha

Attended by:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name</th>
<th>College</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ankit Joshi</td>
<td>Sri Venkateswara College</td>
</tr>
<tr>
<td>2</td>
<td>Rakesh Kumar</td>
<td>A.R.S.D. College</td>
</tr>
<tr>
<td>3</td>
<td>Pankaj Khandelwal</td>
<td>Janaki Devi Memorial College</td>
</tr>
<tr>
<td>4</td>
<td>Vaibhav Puri</td>
<td>Sri Guru Gobind Singh College of Commerce</td>
</tr>
<tr>
<td>5</td>
<td>Animesh Naskar</td>
<td>Hansraj College</td>
</tr>
<tr>
<td>6</td>
<td>Malabika Pal</td>
<td>Miranda House</td>
</tr>
<tr>
<td>7</td>
<td>Asheerwad Dwivedi</td>
<td>Shri Ram College of Commerce</td>
</tr>
<tr>
<td>8</td>
<td>Rachna Mathur</td>
<td>Shaheed Bhagat Singh College</td>
</tr>
<tr>
<td>9</td>
<td>Rajeev Parashar</td>
<td>Lady Shri Ram College</td>
</tr>
<tr>
<td>10</td>
<td>Vandana Tulsyan</td>
<td>Dyal Singh College</td>
</tr>
<tr>
<td>11</td>
<td>Nidhi Pande Aggarwal</td>
<td>DCAC</td>
</tr>
<tr>
<td>12</td>
<td>Swarup Santra</td>
<td>Satyawati College</td>
</tr>
<tr>
<td>13</td>
<td>Gagan Swamy</td>
<td>Lakshmibai College</td>
</tr>
<tr>
<td>14</td>
<td>Madhuri Singh</td>
<td>Kalindi College</td>
</tr>
<tr>
<td>15</td>
<td>Mamta Lamba</td>
<td>College of Vocational Studies</td>
</tr>
<tr>
<td>16</td>
<td>Shalini Basna</td>
<td>Motilal Nehru College</td>
</tr>
<tr>
<td>17</td>
<td>Preeti Mendiratta Arora</td>
<td>Maitreyi College</td>
</tr>
<tr>
<td>18</td>
<td>Rakesh Kumar</td>
<td>Dyal Singh College</td>
</tr>
<tr>
<td>19</td>
<td>Iti Tomar</td>
<td>Shyama Prasad Mukherji College.</td>
</tr>
</tbody>
</table>
Readings:


Topic wise readings with their tentative lecture requirements and weightage (%) in semester examination

**Unit 1: Investment Theory and Portfolio Analysis (5 Lectures)**

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:

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

Bodie, Kane & Marcus: Exercises of Chapters: 14, 15 & 16
Unit 2: CAPM (15 Lectures)

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 Sections 7.6 & 7.8)

Reading for Teachers: Copeland, Weston, Shastri & Katz: 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.
David G Luenberger: Chapter 8: Models and Data: 8.1, 8.2, 8.3 & 8.4

Unit 3: Options and Derivatives

I. FUTURES (12 Lectures)
a) Introduction to derivatives and options; forward and futures contracts; options; other derivatives

Hull Chapter - 2: Mechanics of Futures Markets (Sections 2.1 - 2.4 & 2.11)**

b) Forward and future prices

Hull Chapter-5: Determination of Forward & Futures Prices (Sections 5.1 - 5.5, 5.9, 5.11 & 5.12)

Suggested Problem Set: Hull Chapter-5:
c) **Stock index futures & the use of futures for hedging**

Hull Chapter - 3: Hedging Strategies using Futures

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

d) **Interest rate futures & duration-based hedging strategies**

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

**Suggested Problem Set**: Hull Chapter - 6: Sections 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.

**II. OPTIONS:**

Part A (15 Lectures)

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

Hull Chapter - 10: Mechanics of options markets (10.1 to 10.7); Hull Chapter -11: Properties of stock options (Full Chapter)


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

Hull Chapter -12: Trading strategies involving options (Full Chapter)

**Suggested Problem Set**: Hull Chapter-12: Sections 12.1 - 12.5, 12.8 - 12.11, 12.13, 12.16, 12.20, 12.21 & 12.22.

Part B (15 Lectures)

g) **The principle of arbitrage; discrete processes and the binomial tree model; risk neutral valuation, Black Scholes Merton (BSM) Model, Greek letters**


Hull Chapter - 15: The Black–Scholes–Merton Model: Sections 15.3, 15.4, 15.5, 15.6, 15.8, 15.11 Hull Chapter - 19: The Greek Letters**

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

**Questions Pattern in End Semester examination**: As per University guidelines. Scientific calculator can be allowed during the examination. **Internal Assessment**: One Test and One Term Paper/Project. **Weightage**: Section 1 & 2 (50%) and Section 3 (50%).

**Note**: Suggested Problem Set for Unit 3 Options Part B will be added later.