B8306 CAPITAL MARKETS AND INVESTMENTS

FALL 2014

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Office Hours: Thursdays 08:00-11:00

TEACHING ASSISTANTS

TBD
Office hours: TBD
TBD
Office hours: TBD

WEEKLY REVIEW SESSION: Fridays 10.45pm-12.15pm, Uris 303

REQUIRED COURSE MATERIAL

I will distribute handouts of the lecture notes during class. I will also place electronic copies of the lecture notes and other reading materials on Canvas. These lecture notes are self-sufficient for this course.

Optional additional reading:

The following (optional) textbook is useful as background material throughout this course.

• Investments, by Bodie, Kane, and Marcus (BKM), Irwin/McGraw Hill. Eighth Edition or later.

I will reference relevant chapters in BKM as we move from topic to topic.

Solution manuals to the problems in the book are available on reserve in the business library (titled "Student solutions manual to accompany Investments").

If you are looking for additional reading on derivatives, I recommend the following book (optional), which is also available on reserve in the business library.

• Fundamentals of Futures and Options Markets by John Hull. If you are comfortable with calculus, you can also use the
sister book *Options Futures and other Derivatives*, also by John Hull. Both books cover similar topics except that the latter uses calculus while the former does not.

**REQUIRED PREREQUISITES AND CONNECTION TO THE CORE**

Capital Markets and Investments builds on knowledge from Corporate Finance, Managerial Statistics, and Decision Models course to understand asset valuation and investment decisions. Capital markets uses and builds upon the basic valuation tools developed in Corporate Finance such as arbitrage valuation, time value of money, understanding risk-return tradeoffs, the CAPM, and asset valuation. In analyzing various markets and assets, Capital Markets uses a large amount of material from Statistics, including the following: statistical modeling, random variables and distributions, parameter estimators, hypothesis testing, and regression. Optimization methods and stochastic modeling tools from Decision Models are also widely used, especially in portfolio construction and risk control. There are also some connections, though to a lesser degree, with Global Economic Environment especially in the Fixed Income Unit in discussing bond markets and the role of central banks and monetary policy.

**COURSE DESCRIPTION**

This course is an introduction to capital markets and investments. The course provides an overview of financial markets and teaches you tools for asset valuation that will be very useful in your future careers. The course also lays the foundation for more advanced courses in finance. We will cover three main topics:

1. The pricing of fixed income securities
2. The valuation of equity securities and portfolio theory
3. The pricing of options and other derivatives

We will take a hands-on approach in this course and will apply the concepts taught to review recent events in financial markets, e.g., the credit crisis and the European sovereign debt crisis. The course is challenging and highly quantitative in nature. You should be prepared to work with calculators, data and spreadsheets.

**ASSIGNMENTS**

Homework will be assigned (roughly) on a weekly basis. Homework will be posted on Angel, and the Angel calendar will indicate when homework is due. **Hand in your homework in class on the day it is due.**

Submitted homework will be marked check minus, check, or check plus. **Homework that is turned it late will not be accepted.** Doing the homework assignments is the best way to prepare for the exams. It will raise your performance on the course.

Please work on your homework in groups of **three to five** people (designation A - group/group). Turn in one assignment for the group and be sure to include the names of all group members. Try to establish homework groups at the beginning of the semester and stick with the same group throughout the semester. This way you can learn from each other.
EXAMS

There will be two exams, a midterm and a final exam. Both exams will be in class (1.5 hours). Exams are closed book, but you may bring a regular letter size, double-sided cheat sheet with you. Please also be sure to bring a calculator.

CLASS PARTICIPATION

This is a demanding course and students are expected to prepare for class and participate in class discussions. You should complete all assigned readings, have reviewed previous lectures and be willing to answer (and ask) questions during class. I occasionally call on students in class to ensure participation.

Please don’t be shy about asking questions to clarify what we are discussing or to bring a different perspective. The course is cumulative, so being lost gets very costly very quickly. If I am unclear in presenting something, others are probably also confused and you will be doing yourself and classmates a favor by asking for clarification.

Active and constructive class participation will earn you points towards your final grade.

METHOD OF EVALUATION

This course is an elective and is thus not subject to the curve that applies to core courses. Historically, the top 30-40% in this class have received Hs (including pluses and minuses), the bottom 5-10% Ps, and the remainder HPs.

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<td>Participation</td>
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<td>Problem Sets</td>
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<td>Midterm Exam</td>
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<td>Final Exam</td>
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CLASSROOM NORMS AND EXPECTATIONS

1. I strongly expect everyone to show up on time for class. Latecomers are disruptive for the entire class.
2. I have a closed laptop and no cell phone policy in class.
3. In order to help me get to know you, please email me a copy of your resume.