Tuesdays and Thursdays: 4:40pm – 5:55pm
Location: Soc Sci 107
Sponsored by: **The Financial Education Partnership (FEP)**

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Soc Sci 329H

COURSE SYNOPSIS

The goals of this course are (1) to expand students' awareness and understanding of the financial markets, products offered and the interplay of macroeconomics on asset market movements and valuation; (2) give students a better understanding of the positions available and the skills and tools required in those positions within the investment banking and financial services fields; and (3) give students the opportunity to meet and interact with professionals who are working in the field.

CLASS FORMAT

This course is offered as a discussion seminar. Some classes will begin with a presentation on the subject matter, and discussion will follow (generally based on the supporting readings and bringing in current news and events that are relevant to the subject matter). Other classes will be partially or wholly taken up with guest lectures.

ASSIGNMENTS AND GRADING

Essays relating to assigned readings: A number of books are assigned as required reading for this course (see the course outline). Essay topics relating to the books are listed below. You are expected to write essays on *five* of these topics (one essay on each of the dates indicated in the Course Outline below). Essays should be approximately four double-spaced pages, and should be your own, unaided work. Your essays will comprise 35% of the grade.

Problem Sets: There are up to four problem sets assigned over the course of the semester (these will depend to some extent on the visiting speaker schedule; we may end up with fewer problem sets). You are welcome (and even encouraged) to collaborate on the problem sets; however, each student must submit his or her own completed version. These problem sets will count for 35% of the grade.

Late Homework Submissions Policy: Homeworks (essays and problem sets) should be handed in (as printouts) at the beginning of class on the day that they are due, and may not be handed in late. I will allow each student *one* late homework submission (no more than 48 hours overdue) under genuine emergency circumstances. A second late submission, under *any* circumstances, will automatically result in a zero grade for that homework or essay. Please do not treat the "one late submission" as a free option—use it only if genuinely needed.

Class participation: Class participation is an essential component of this course, and will account for 30% of the grade. Elements of the class participation grade include: attendance record, participation in class discussion, and familiarity with current financial market events. Class attendance is mandatory; the instructor reserves the right to request documentation to validate an unavoidable absence. Repeated late arrivals in class will also negatively impact your grade.

READING LIST AND ESSAY TOPICS

A Random Walk Down Wall Street Burton Malkiel
A Random Walk Down Wall Street is described on the back cover as a "…vastly informative guide [which] shows how to…beat the pros at their own game." Suppose an intelligent but financially inexperienced friend comes to you for advice. She has just received a significant bequest of money and would like to invest it in the stock market. She asks you to recommend just *one* book that will tell her all she needs to know before embarking on this course of action. Would you recommend this one? In answering this question, please don't just summarize the book. Ask yourself the question: "what are the important issues that your friend should consider before deciding how to invest? Does *Random Walk* address all of those issues in a satisfactory fashion?".

Devil Take the Hindmost   Edward Chancellor
Compare and contrast any *two* of the many "speculative manias" described in the book. What are some of the similarities, and in what ways do they differ? Consider, among other aspects: who were the main participants; how long did the mania last; how widespread was it; were there any contemporary "cassandras" attempting to warn people of the imminent crash; and what were the key factors that caused the bubble to burst?

Origins of the Crash: The Great Bubble and its Undoing Roger Lowenstein
Lowenstein suggests that several factors precipitated the crash of 2000 and ensuing economic downturn. Elucidate the impact of each factor; and discuss which factors you feel were essential contributors to the crash, versus those that may have contributed to the crash, but whose absence would not have prevented it.

Boomerang: Travels in the New Third World Michael Lewis
Compare and contrast mistakes made by finance institutions, regulators, and/or central bankers in any two of the countries visited by Lewis. How did these mistakes fuel the European debt crisis? How do different errors between the two countries result in greater or lesser levels of economic meltdown? You are encouraged to research events subsequent to the publication of Lewis' book in discussing both mistakes and outcomes as the European debt problems continue to evolve.

The Big Short Michael Lewis
Does Lewis's account of the financial crisis seem biased in any way? Are there contributory factors to the crisis that are ignored in his book? Are there other factors to which he seems to give too *much* weight?

When Genius Failed: The Rise and Fall of LTCM Roger Lowenstein
Suppose that the Fed, in conjunction with the consortium of banks, had not stepped in to bail out LTCM in September 1998, but had merely left LTCM to its fate in the markets. What might have happened to the US and global financial markets as a result? Compare the situation in When Genius Failed to the more recent market collapse, in which the Fed arranged "forced weddings" in some cases and simply let institutions fail in others. With 20/20 hindsight, should the Fed have bailed out LTCM?

More Money than God   Sebastian Mallaby
Choose three hedge fund managers discussed in this book, and compare and contrast their investing styles.

Fooled by Randomness Nassim Nicholas Taleb
What are the three most important lessons (or "takeaways") from Taleb's book, and why?

Beyond Greed and Fear Hersh Shefrin
Shefrin claims that even the most savvy investors fall prey to the biases and cognitive errors that are "hard-wired" into our decision-making processes. Use behavioral arguments to explain at least three recent or historic financial "disasters" that we have read in other texts in this course (e.g., LTCM, the Internet Crash, specific speculative manias in Devil Take the Hindmost).

Wall Street Journal
You are expected to obtain a subscription to the Wall Street Journal, and to read relevant pages/sections on a regular basis, to stay current with business/finance news and data.

Course Outline
Topics and homework schedules are tentative, depending on speaker schedule as well as ad hoc discussions relating to current/recent market events.

Most classes will begin with:
- Discussion of current relevant stories from the Wall Street Journal
- Analysis and debrief on previous week's essay topic, when applicable

Introduction and Overview.
- The structure and purpose of this class
- The structure of Investment banking
  o Divisions, functions
  o The role of an analyst
  o Visiting seniors: brief overview of their summer internships
- Overview of macroeconomic principles
  o Bonds and equities—returns and volatility
  o The yield curve

Time Value of Money and Net Present Value
- Discounted cash flows and present value
- Using NPV for project valuation—spreadsheet example
  o Creating a financial model to evaluate a corporation
  o Identifying appropriate variables and assumptions
  o "Stress-testing" the model by varying the assumptions

HW: NPV Problem set (due in class on Sep 10)

The Capital Asset Pricing Model (CAPM) and Capital Structure
- Efficient portfolios
- Beta: what is it, and how do we estimate it?
- CAPM
- Leverage

Essay 1: "Random Walk" (due in class on Sep 17)

Introduction to Corporate Valuation
- Discounted cash flow analysis
- Assumptions

HW: Creating a DCF model spreadsheet (due in class Sep 24)

Corporate Valuation—other methodologies
- Comparable Companies
- Comparable Transactions

HW: Comparable Companies exercise (due in class Oct 1)

Corporate Valuation: bringing the methodologies together
- DCF vs Comps
- Sensitivities

Essay 2: Either "Devil Take the Hindmost" or "Origins of the Crash" (due in class on Oct 8)

Behavioral Finance
- Psychology of trading and traders
- Heuristics and biases
- Probability errors

HW: Problem Set (due Oct 22)

Financial market trading
- Language of the trading floor
- Avoiding psychological errors

Essay 3: Either "Boomerang" or "The Big Short" (due in class on Oct 29)

Asset Pricing
- Bond markets
- Interest rates vs credit products
- Equity Markets

Investment Portfolios and Asset Management
- Tradeoffs between risk and return
- CAPM revisited
- Asset correlation analysis

HW: Problem Set (due Nov 12)

Derivatives markets
- How do futures and options work?
- What purpose do they serve?
- Credit markets and products

Essay 4: Either "When Genius Failed," or "More Money than God" (due in class on Nov 19)

Resume preparation and interview skills:
- What have we learned so far?
- What are current hot topics in the markets?

Essay 5: Either "Fooled by Randomness" or "Beyond Greed and Fear" (due in class Dec 3).