

University of Chicago

**FINANCE
PP 320**

Spring 2007
Fridays 2 to 5 PM
Location: Lecture Hall

Raaj Sah
Room 141
email: sah@uchicago.edu
Phone: 773-702-0085
Fax: 815-642-0992

Teaching Assistants:

Olena Verbenko
email: olena@uchicago.edu
Phone: 773-915-3166

Roni Kisin
email: [rkisin @chicagogsb.edu](mailto:rkisin@chicagogsb.edu)
Phone: 773-885-4268

OVERVIEW

Increasingly, many public policy positions require expertise in finance. This expertise includes the ability to analyze investments and projects, to participate in borrowing operations and portfolio management, and to deal in a variety of other ways with financial instruments, markets and institutions. Even those professionals whose entry-level jobs do not involve financial matters often find that their long-term career opportunities are related positively to their competence in finance.

Finance can be learned at several different levels. This course is somewhat more comprehensive than typical entry-level finance courses in MBA programs. It is nearly impossible to learn modern finance without the use of some mathematical tools.

A long-term learning goal in a course such as this is to acquire financial intuition. Accordingly, the development of intuition is emphasized in every part of the course. Throughout the course, you are expected to become routinely and vigorously involved in class participation.

Many of the ideas and methods of finance are often independent of whether the context of application is the public sector or the private sector. The policy orientation of the course is reflected in, among other things, the choice of the contexts and examples.

Given the limited availability of time, this course focuses primarily on the foundations. A complementary course ("Topics in Finance," PP 344) is devoted solely to applications. This latter course is based almost entirely on case studies and practice-oriented project work.

TOPICS

Additional topics and materials might be added, and some omitted, depending on the availability of time. I have requested the Regenstein Library to place on reserve all of the books noted below. The following books should be available at the University Bookstore: Brealey and Myers; and Bodie, Kane and Marcus.

1. Assets, securities, indices, financial markets.

Bodie, Zvi, Alex Kane and Alan J. Marcus, *Investments*, 6th edition, McGraw Hill, New York, 2004. Chapters 2, 3 and 4.

Houthakker, Hendrik S. and Peter J. Williamson, *The Economics of Financial Markets*, Oxford University Press, New York, 1996. Chapter 3.*

Notes 1.

Teweles, Richard J., Edward S. Bradley and Ted M. Teweles, *The Stock Market*, 7th edition, Wiley, New York, 1998. A comprehensive discussion of stock markets. Optional reading. Read as many chapters as you wish.*

2. Patterns of world-wide risks and returns.

Bernstein, Peter L., *Against the Gods: The Remarkable Story of Risk*, Wiley, New York, 1998. Optional reading. Read as many chapters as you wish.*

Brealey, Richard A., Stewart C. Myers and Franklin Allen, *Principles of Corporate Finance*, 8th edition, McGraw Hill, New York, 2006. Chapter 7, Part 1.

Ibbotson, Roger G. and Gary P. Brinson, *Global Investing*, McGraw-Hill, New York, 1992. Optional reading. Read as many chapters as you wish.*

Malkiel, Burton G., *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing*, W. W. Norton, New York, 2007. Optional reading. Read as many chapters as you wish.*

Notes 2.

Siegel, Jeremy J., *Stocks for the Long Run*, McGraw Hill, New York, 2002. Optional reading. Read as many chapters as you wish.*

3. Descriptions of risk. Choices in risky situations. Anomalies of behavior.

Bodie, Kane and Marcus. Chapters 6.

Hirshleifer, Jack and John G. Riley, *The Analytics of Uncertainty and Information*, Cambridge University Press, New York, 1992. Chapter 1.*

Notes 3.

4. Comparisons of future cash flows without and with uncertainty.

Brealey and Myers. Chapters 5, 6, and 10.

Copeland, Thomas E. and J. Fred Weston, *Financial Theory and Corporate Policy*, 4th edition, Addison-Wesley, Reading, MA, 2003. Chapters 2 and 3.*

Notes 4.

5. Analysis of portfolios. Choices of optimal portfolios.

Bodie, Kane and Marcus. Chapters 7 and 8.

Copeland and Weston, Chapter 6.*

Notes 5.

6. Derivative securities. Futures, options, and other contracts.

Bodie, Kane and Marcus. Chapters 20, 21 and 22.

Hull, John C., *Options, Futures, and Other Derivatives*, 6th edition, Prentice-Hall, Englewood Cliffs, NJ, 2005. Chapters 3, 11, and 12.*

Notes 6.

7. Valuation of securities.

Bodie, Kane and Marcus. Chapters 9, 10 and 11.

Copeland and Weston. Chapter 7.*

REVIEW SESSIONS

Review sessions will be held every week. Extra sessions will be organized if you request them. In all of these sessions, you should feel free to bring up and discuss all aspects of the course.

OFFICE HOURS, ETC.

My weekly walk-in office hours are posted on my office door at the beginning of each quarter. Please do not hesitate to contact me to make an appointment for another time.

GRADING

Grades will be based on a mid-quarter test (50%), and a final test (50%). The mid-quarter test will be held in the class on Friday, May 4, from 2 to 3 PM. Since many of you will be graduating at the end of this quarter, it is preferable to hold the final test in the tenth week of the quarter. The final test will be held in the class on Friday, June 1, from 2 to 3 PM. Please plan your schedule accordingly. There will be no make-up or early tests. An extra class will be held on Saturday, April 7, from 2 to 5 PM. An additional extra class might be needed.

Typed answers will be made available at the end of each test. I will distribute two take-home problem sets; additional problem sets are available upon request.

Statistical information on scores and grades (for example, a histogram of scores, and the threshold levels for each letter grade) will be made available for the mid-quarter test and for the course as a whole. Please let me know if you need additional information or interim feedbacks.

PREREQUISITES

PP 323 and PP 324, or the instructor's consent.