COURSE DESCRIPTION: Introduction to principles of asset valuation and role of financial markets in market economy. Basic topics include time value of money, discounted cash flow analysis, CAPM model, and applications to public policy.

PREREQUISITE: Economics 102.

STUDY QUESTIONS: There is an optional textbook titled Corporate Finance (3rd edition) by Ivo Welch. for this class. It is free on-line at: http://book.ivo-welch.info/ed3/toe.html However, please note I will not be tightly following the chapter numbers listed below. Exams are based on the lectures only. I will post my lecture notes. I will be providing study questions (posted on the course website). The study questions will not be collected or graded, but you should find them very useful in preparing for exams. Course website: https://moodle2.sscnet.ucla.edu/course/view/161A-ECON106F-1

EXAMS: There will be two exams. The approximate weighting of the exams is as follows:
First Exam (July 11th, Monday) - 45%
Final Examination (July 27, Wednesday) - 55%
ALL exams must be taken at the scheduled time.

POLICY ON MISSED EXAMS: Exams must be taken at their scheduled time. Please note that under no circumstances will a makeup exam be administered if a student misses a midterm. If a student has a legitimate emergency (by “emergency” I mean serious and unanticipated) and can provide acceptable documentation of such of an emergency, then additional weight will be placed on the final exam. Any such documentation, such as a doctor’s note, should clearly state that the student was incapacitated and was therefore unable to take the exam or faced a serious impediment that prevented attendance at the exam. A student who misses an exam without a valid, verifiable excuse will receive a zero. If due to a verifiable emergency, a student misses the final exam, then that student will be required to take a makeup final exam administered by the department at the officially announced day and time. If a student misses all exams this student will receive an automatic grade of “F”.

EXAM RULES: Please note that calculators are NOT allowed for the exams. You will NOT be allowed to have cell phones or any other electronic devices on your desk during the exam. Once the exam begins, you will not be allowed to leave the room until you hand in your exam, so please plan accordingly. All backpacks should be zipped closed and all books put away. Failure to do so will delay the distribution of the exams for the entire class. When I call for the exams, all writing must stop. All that students should have on their desks is a pen/pencil (s) and their photo ID card (which functions as a straightedge for drawing graphs).
**DISABLED STUDENTS and the OFFICE of STUDENT DISABILITIES (OSD):** Any student with a pre-existing illness or condition who requests special arrangements must (a) qualify under OSD rules for such special arrangements and (b) must take the exam with OSD. Any such arrangements with OSD must be made the first week of classes. The instructor must be informed of any such arrangement in the first week of classes. For additional information and the qualification conditions of the Office of Student Disabilities (OSD), please visit their website at [http://www.osd.ucla.edu/Index.htm](http://www.osd.ucla.edu/Index.htm). All other students must take the exam at the scheduled time under the same time constraints. It is the responsibility of all students who request special arrangements with OSD to be familiar with all of their rules as well as the rules of this class.

**ACADEMIC DISHONESTY**
Any cases of cheating will be reported to the Office of the Dean of Students. For more details please refer to the Office of the Dean of Students website at [http://www.studentgroups.ucla.edu/dos/](http://www.studentgroups.ucla.edu/dos/)

**TOPICS**
- Introduction to basic terms, Value, law of one price, investment, projects, firms, bonds (debt) and stock (equity)
- Present value, Future value, Capital Budgeting (under certainty). Concept of PV, economic interpretation, separation theorem, future value, applications of PV and FV for variety problems, continuous compounding, first approach to capital budgeting issues and NPV.
- Capital Budgeting continued, NPV, IRR, problems with IRR. Which one is correct concept?
- Yield Curve, Spot rates, forward rates, PV with time-varying rates, nominal vs. real rates of interest, Fisher equation, theories of the yield curve, interpretations of the yield curve.
- Uncertainty and risk, Measuring risk, different types of risk, capital budgeting with uncertainty.
- Risk and Return, Basic concepts, market beta, diversification, Capital Asset Pricing Model (CAPM)
- Market Efficiency, Bubbles, Efficient Market Hypothesis (random walk), bubbles.
- stock options.