ECONOMICS 106F: FINANCE
INSTRUCTOR: EDWARD MCDEVITT
UCLA, SUMMER SESSION C, 2019

Lecture Days and Times: TR 3:15-5:20 PM
Classroom: Kaplan A65
Office: TBA
Office Hours: TBA
I also hold additional office hours in the week leading up to an exam.
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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 (Intermediate Macro).

STUDY QUESTIONS: There is no required textbook for this class, but I will be posting my notes on the course website. There is an optional textbook titled Corporate Finance (4th edition) by Ivo Welch. for this class. It is free on-line at: http://book.ivo-welch.info/read/  Exams are based on the lectures only. I will be providing study questions (also 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/191C-ECON106F-2

EXAMS: There will be two exams. The approximate weighting of the exams is as follows:
First Exam (August 22, Thursday) - 45%
Final Examination (September 12, Thursday) - 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 department policy does not allow for any makeup exam to be administered if a student misses a midterm. If a student has a legitimate reason (by “legitimate reason” I mean something serious and unanticipated) and can provide acceptable documentation of such of an excuse, then additional weight will be placed on the final exam (I make an adjustment based on degree of difficulty if the final exam has a significantly different mean score). 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”. Also, please note that once a student sits for an exam, I do not allow a retroactive dismissal of the exam nor do I change the weights specified in the syllabus.

EXAM RULES: Please note that calculators are NOT allowed for my exams. You will not be allowed to have cell phones or any other electronic devices on your desk during the exam. 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 announce that the exam has ended, 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). As a matter of department policy, we check photo IDs against a class roster.
**Center for Accessible Education (CAE):** Any student with a pre-existing illness or condition who requests special arrangements must (a) qualify under CAE rules for such special arrangements and (b) must take the exam with CAE. Any such arrangements with CAE must be communicated to the instructor during the first week of classes. For additional information and the qualification conditions of the Center for Accessible Education please visit their website at [https://www.cae.ucla.edu/](https://www.cae.ucla.edu/). 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 CAE 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 [https://www.deanofstudents.ucla.edu/Academic-Integrity](https://www.deanofstudents.ucla.edu/Academic-Integrity)

**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.