Financial Markets and Instruments

4^{th} module, 2020-2021

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Course information

Course Website: mynes

Instructor's Office Hours: Wednesdays 3:30-5:00 pm, or by request.

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Course description

This course introduces main concepts and approaches in finance: financial markets, intermediaries, financial instruments, the notion of corporation, time value of money, investment decision rules, firm valuation, capital markets and pricing of risk, optimal portfolio choice and capital asset pricing model.

Course requirements, grading, and attendance policies

The final grade will be based on the final exam (70%) and on three home assignments (30%).

Course contents

- Overview of the Financial System, Mishkin Eakins chapters 1-2.

  The rest of the class will be based on Berk DeMarzo textook
- The Corporation, arbitrage and financial decision-making.
- Time value of money, Interest rates.
- Investment decision rules, capital budgeting.
- Valuing stocks and bonds.
- Capital Markets and the Pricing of Risk.
- Optimal Portfolio Choice and the Capital Asset Pricing Model.
- Estimating the cost of capital.

Description of course methodology

Students are expected to actively participate in the discussion in the class, the goal is not only to learn standard methods and approaches in finance, but also to understand how and why the finance profession came up with these methods.

Sample tasks for course evaluation

Below you can find sample questions.

- According to classic Modigliani-Miller theorem what security the issuer should prefer: debt or equity?
- Suppose an individual who is likely to face a liquidity need in the future decides whether to invest his savings in bonds (debt) or stocks (equity). What would you advise him to do? Provide an argument.
- Provide the intuition behind the "bank runs" in the Diamond-Dybvig model.
- What policies can help to prevent bank runs?
- Based on the intuition from Malherbe (2014) "Self-fulfilling liquidity dry-ups" the secondary market for long-term assets is more likely to be illiquid: when firms hoard little liquidity or when firms hoard a lot of liquidity? Provide an argument.

Course materials

Required textbooks and materials

Main textbooks:

- "Corporate Finance", by Jonathan Berk and Peter DeMarzo,
- "Financial Markets and Institutions", by Frederic Mishkin and Stanley Eakins.

Additional materials:

- "Corporate Finance" by Ivo Welch (can be found here http://book.ivo-welch.info/read/),
- "The Theory of Corporate Finance", by Jean Tirole,
- "Investments", by Zvi Bodie, Alex Kane, and Alan Marcus,
- 2009, Финансовая грамота, Алексей Горяев и Валерий Чумаченко.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.