

MONEY & CAPITAL MARKETS

Finance 412-001

Fall 2008

310 Bidgood Hall; 9:30-10:45 TTH

Office hours: 8:30-9:30 TTH

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Course Objective

Recently, financial markets have been undergoing profound changes. Examples include the growth in mutual funds, creation of new financial instruments, explosion in trading volume, and the role of the internet. These changes have transformed the traditional role of financial institutions. In order to participate fully in this new environment, it is important to have a clear understanding of how financial instruments vary across different financial markets, how the instruments are priced, and what is the new role of financial institutions within the various markets.

Class Materials

The required text in this course is:

Santomero, A. M. and D. F. Babbel, *Financial Markets, Instruments, and Institutions*, Second Edition, McGraw-Hill, 2001 or, equivalently,

Santomero, A. M. and D. F. Babbel, *Financial Markets, Instruments, and Institutions*, Primis Online division of McGraw Hill, ISBN 978-0-390-73516-4

You will need a financial calculator.

I will extract supplementary material related to this course from the *Wall Street Journal*. Students must have access to the Journal.

Class Format

The class format is lecture. I will generally present the material sequentially. For example, I will first introduce concepts. Then, I will work problems that are related to these concepts. I will draw lecture material from the primary text, my personal notes, and related Wall Street Journal articles. My test problems will usually be similar to in-class problems. Students are encouraged to ask questions and participate during class time.

Performance Evaluation

Grades will be determined by 4 equally-weighted tests and, possibly, extra-credit points. Extra-credit points will typically be based on homework problems designed to help students prepare for the test problems. The tests and extra-credit points will be summed and divided by four to obtain an average. All tests will be closed book and closed notes. Calculators cannot be shared during exams. Students taking the class for graduate credit will be required to write a research paper on a topic approved by me. The research paper will count the same as a test. Student grades will be accessible through eLearning.

Tests may include conceptual short answer questions, multiple choice questions, true-false questions, and problems. The first test will be given on **September 4**, the second test on **October 2**, the third test on **November 4**, and the fourth test on the final examination date of **Thursday December 11 from 8:00-10:30 a.m.** If a student cannot take a scheduled test due to an excused absence, then he/she must take a comprehensive exam on the final examination date which will count for the missed test and final test.

There will be no make-up exams (except as required by University Policy for the final exam). Students are responsible for attending all exams at the scheduled time. **There are no exceptions to this rule.**

Disability Access

To request disability accommodations for a test, it is the student's responsibility to contact the Office of Disability Services at 348-4285. After making initial arrangements with that office, contact me.

Outline of Course Schedule

Part I: Introduction

| <u>Date</u> | <u>Source</u> | <u>Description</u> |
|-------------|---------------|---------------------------------------|
| 8/21 | | Course Introduction |
| | Chapter 1 | Functions Performed by Financial Mkts |

Part II: Pricing Cash Flows

| | | |
|------|-----------|------------------------------------|
| 8/26 | Chapter 3 | Fundamentals of Rate Determination |
| | Chapter 4 | Behavior of Nominal Interest Rates |
| 8/28 | Chapter 5 | Term Structure of Interest Rates |
| 9/2 | Chapter 5 | Term Structure of Interest Rates |

9/4 *Test #1* (Chapters: 1, 3, 4, and 5)

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|------|-----------|------------------------------------|
| 9/11 | Chapter 6 | Valuing Cash Flows |
| 9/16 | Chapter 6 | Valuing Cash Flows |
| 9/18 | Chapter 7 | Future Interest Rates |
| 9/23 | Chapter 8 | Interest Rate Risk and Valuing CFs |
| 9/25 | Chapter 9 | Other Risks and Valuing CFs |
| 9/30 | Chapter 9 | Other Risks and Valuing CFs |

10/2 *Test #2* (Chapters: 6, 7, 8 and 9)

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|-------|---------------------------------|-----------------------------------|
| 10/7 | Chapter 10 | Valuing CFs in foreign Currencies |
| 10/9 | <i>Mid-Semester Study Break</i> | |
| 10/14 | Chapter 10 | Valuing CFs in foreign Currencies |

Part III: Instruments in the Market

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|-----------------------------------|--|--|
| 10/16 | Chapter 11 | Money Market |
| 10/21 | Chapter 12 | Bond Market |
| 10/23 | Chapter 13 | Mortgage Market |
| | Sub-Prime Debt Crisis | Professor's Notes |
| 10/28 | Chapter 14 | Equities |
| 10/30 | Chapter 14 | Equities |
| | Asset Securitization | Professor's Notes |
| 11/4 | <i>Test #3</i> (Chapters: 10, 11, 12, 13, 14, and Notes) | |
| 11/6 | Chapter 15 | Futures and Options |
| 11/11 | Chapter 15 | Futures and Options |
| 11/13 | Chapter 16 | Floating Rate Securities & Derivatives |
| Part IV: Markets and Institutions | | |
| 11/18 | Chapter 17 | Institutional Structure of Financial Markets |
| | Chapter 18 | Primary Market Structure |
| 11/20 | Initial Public Offer | Professor's Notes |
| 11/25 | Chapter 19 | Secondary Market Structure |
| 11/27 | <i>Thanksgiving Holiday</i> | |
| 12/2 | Chapter 21 | Investment Banking Industry |
| 12/4 | Chapter 21 | Investment Banking Industry |
| 12/11 | <i>Test #4</i> (Chapters: 15, 16, 17, 18, 19, 21, and Notes) | |