

UNIVERSITY OF HOUSTON

FINA 7A20 CAPITAL MARKETS Spring 2016

INSTRUCTOR: Guojun Wu, Ph.D. Professor of Finance
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COURSE MATERIALS:

Required:

Investments, Bodie, Kane, and Marcus, 10th or later edition, McGraw-Hill/Irwin. [BKM]
ISBN-13: 978-0077861674; ISBN-10: 0077861671 (earlier editions acceptable)

Recommended:

Class notes, cases and readings on Blackboard

COURSE DESCRIPTION:

This course covers the capital markets and some important concepts in investments. The course uses both the lecture and the case method of instruction to develop a practical understanding of some of the more important financial instruments and markets.

It first introduces the investment environment and the relationship between the financial markets and the economy. It highlights the importance of the financial markets in the functioning of a market economy and in meeting the needs of the various clients of the financial system. The course then moves on to discuss various financial instruments and their trading in the money market, the fixed income market, the equity market and derivatives market. A natural extension of these instruments as an investment vehicle leads to development of mutual funds and other investment companies.

The course also covers fixed income securities in detail. In particular, bond pricing, yields, the term structure of interest rates are the basic concepts to be discussed. The final part of the course covers some important derivative securities such as forwards/futures and interest rate swaps.

COURSE WEBSITE

Course materials other than the textbooks are posted on the website. You should check the website regularly, and it should be the first place you want to look for course related information, or if you have questions regarding assignments and cases.

CASES

There will be one or two cases in the course. You are expected to form groups of three or four members. In order to deal fairly with evaluation problems, every group member will be required to submit a participation grade for every other member at the final quiz (on a scale of 1 to 10).

The written case report is due at the beginning of the assigned class period. No late submissions will be accepted. The analysis should consist of specific and concise responses to the case questions, supported by tables or quantitative analysis as required. For each case, one or more groups will be assigned to present their analyses in class. The presentation itself will not be graded. You are encouraged to email the presentation slides to me a day before the discussion.

CLASS PARTICIPATION:

Your active participation is required throughout the term. I recommend that you do the readings prior to each class and be prepared for cold callings.

QUIZ

There will be an in-class final quiz at the end of the seven-week term. All quizzes are open book, open notes.

ATTENDANCE

You are expected to attend all class meetings, and this is the most efficient way to do well in this course. Yet, you may miss up to one class meeting without excuse. Note that you are still responsible for learning the materials covered in all class meetings, and your assignments and case reports are due on the announced dates, except for emergency situations.

GRADE

Your grade will be determined according to the following weighting scheme:

Class Participation	10%
Case Reports	40%
Quiz	50%

COURSE OUTLINE: (subject to change by the instructor during the semester)

Pay attention to announcements in class for due dates.

Introduction, Markets and Instruments

Readings: BKM Chapters

Market Structure, Trading, and Asset Returns

Readings: BKM Chapters

Dimension Fund Advisors, 2002 [HBS: 9-203-026]

Forwards, Futures, and Equity Swaps

Readings: BKM Chapters

Introduction to bond markets and U.S. Treasury securities

Basics of bond prices and yields

Readings: BKM Chapters

CASE: Arbitrage in the Government Bond Market?

Case discussion

Term structure of interest rates

Readings: BKM Chapters

Floating rate notes and interest rate swaps

Readings: Long-Term Capital Management, L.P. (HBS: 9-200-007)

CASE: State of Connecticut Municipal Swap

Mortgages and mortgage pass-throughs

Collateralized mortgage obligations and asset-backed securities

QUIZ (in class)