Econ 25000, Introduction to Finance, Fall 2017
Tuesdays and Thursdays, 12:30-1:30pm, Room: TBD

Contact Information
Wenji Xu
Email: wenji@uchicago.edu
Office: Saieh Hall 5-77
Office Hours: TBD

Course Description:
This course provides a brief introduction to the fundamentals of finance. The class is divided into two parts, corresponding to the two main themes in finance: investment and corporate finance.

The first part will focus on how stock, bond, and option prices are determined, and how financial assets are used for investment decisions. Topics covered include: the term structure of interest rates; portfolio selection based on mean-variance analysis; models of risk and return (CAPM and multifactor models); market efficiency hypothesis; asset pricing anomalies and behavioral finance; and derivative security pricing (options, futures and forwards).

The second part of the course focuses on issues of corporate financial structure. This section starts with an analysis of tax and bankruptcy implications of debt financing, and moves on to consider information and agency problems. We will discuss information problems associated with equity financing, the incentive effects of debt financing, and conflicts between equity and debt stakeholders. Specialized topics, such as mergers and acquisitions, corporate governance, and banking, will be covered as time permits.

Prerequisites:
Econ 200-202 and Stat 234 (or familiarity of probability). Econ 203 is recommended.

Readings and Materials:
I will draw materials from the following textbooks:

- Investments by Bodie, Kane and Marcus (BKM), (Edition 8, 9 or 10)
- Corporate Finance by Berk and DeMarzo (BD), (Edition 1, 2, 3 or 4)

The lecture slides will be self-contained and posted on Canvas prior to each lecture. Other reading materials will also be available through Canvas. In addition, there will be 5-6 problem sets for this course. Students could submit the problem sets in groups of up to 4. Instructions about the problem sets will be provided later.
Grading and Regrading:
Whichever of the following formulas gives you a higher grade will be used:

<table>
<thead>
<tr>
<th></th>
<th>Final Exam</th>
<th></th>
<th>Final Exam</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40%</td>
<td></td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Midterm</td>
<td>30%</td>
<td>OR Problem Sets</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Problem Sets</td>
<td>30%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This means that if you don’t do well on the midterm, you can make it up on the final.

If you believe that there has been a mistake in the grading, you should bring it to my attention within two weeks of receiving the score or the grade. Requests for re-grading should be made in writing where the precise nature of the problem or the mistake is explained. Note that the complete exam will be re-graded.

Course Outline:
(primitive and subject to change)

1. Overview, Risk and Return
   Readings: BKM Chapters 1-5

2. The Term Structure of Interest Rates and Bond Portfolio Management
   Readings: BKM Chapters 14-16

3. Portfolio Theory and Mean-Variance Analysis, the Capital Asset Pricing Model
   Readings: BKM Chapters 6-7, 9, “Does the Capital Asset Pricing Model Work?”

4. Multifactor Models and the Arbitrage Pricing Theory
   Readings: BKM Chapters 10

5. Market Efficiency and Anomalies
   Readings: BKM Chapters 11-13, “Anomalies and Market Efficiency”

6. Options, Forwards and Futures
   Readings: BKM Chapters 20-23, “How We Came up with the Option Formula”

7. Capital Structure in a Frictionless Market, Trade-off Theory
   Readings: BD Chapters 14-15, “Determinants of Corporate Borrowing”

8. Agency Problems, Asymmetric Information in Finance
   Readings: BD Chapters 16-17, “Worldcom’s Collapse”

9. Mergers and Acquisitions, IPO (Time Permits)

10. Corporate Governance, Banking and Financial Crisis (Time Permits)
    Readings: BD Chapter 29, “The Credit Crisis”