
BRN 481 – Capital Markets Course Syllabus – Summer 2019

Instructor:

Professor G. William Schwert
CS3-211B

585-275-2470
schwert@schwert.ssb.rochester.edu

Course Information

This course is an introduction to securities markets and the pricing of capital assets. Topics covered include efficient markets theory, models for portfolio selection, asset pricing theory, options and futures, and performance evaluation. As much as possible, we will discuss the relation between the course topics and current events. Emphasis will be on the empirical evidence available on these topics.

Relation to Other Finance Courses

This course is part of the three course series that begins with BRN480 Valuation and is followed by BRN482 Corporate Financial Policy. This course will build on the material of BRN480 as we will use time value of money and cash flow measurement. We will also expand the introduction to diversification, market efficiency and the CAPM offered in BRN480. Overall, the tools developed in this course will be useful for valuing corporations in BRN482 Corporate Financial Policy. Many of the concepts discussed in our class will also be useful in BRN 484 Economics of International Business.

Textbook

The **required** text for the course is:

Zvi Bodie, Alex Kane, and Alan J. Marcus, *Investments (11th ed.)*, Irwin, 2018 (hereafter "*BKM*").

The BKM book provides the basic background for most of the course. It also has several chapters that describe institutions and other topics that we will not have time to cover, but which are very useful

information for people desiring more information about finance. In other words, it is a very good reference book.

Expectations of Student Performance

My expectations are that students will come to class prepared by having read the necessary material. The lectures will not rehash the readings. Rather, we will discuss different perspectives on the arguments presented in the readings.

I will hand out notes to accompany some of the lectures. The handouts will be available on the class web page (see below).

Grading

There will be three case problems that will be done in your study groups. The case problems will involve an analysis of: (1) security return data, including an assessment of risk and return; (2) an analysis of security prices in relation to particular events that are important for the relevant corporations, (3) the use of financial derivative products to hedge portfolio performance. The maximum score available from these cases is **45 points**.

The total group score for the cases equals the average case score times the number of students in the group. On the last day of class (June 24), each group will turn in their grade-allocation sheet containing:

- (a) the percentage (summing to 100%) of the total group score that each member by name is to receive towards his/her final grade, and
- (b) the signature of each group member.

If one group member's signature is missing, the grade allocation sheet is valid and binding on all members. If two or more signatures are missing, the allocation sheet is invalid and the group's score will be allocated equally among the members. I will not arbitrate disputes among group members. A sample of the study group grading form is at the end of this syllabus.

Class participation will count for **15 points** of your grade, and the final exam (on June 26) will count for **40 points** of your grade.

Course Information on the World Wide Web (WWW)

Most of the materials for this course will be posted on the home page for this course [<http://schwert.ssb.rochester.edu/brn481/>]. For example, I plan to post copies of the slides used in the classroom presentations as Adobe Acrobat files (so they can be viewed and printed from the WWW). The best way to receive quick feedback from me is through email, but if your questions can't be adequately answered that way, we can set up a meeting in my office.

Academic Integrity

Simon's Code of Academic Integrity (see Section 2 of the Student Handbook) states: "Every Simon student is expected to be completely honest in all academic matters. Simon students will not in any way misrepresent their academic work or attempt to advance their academic position through fraudulent or unauthorized means. No Simon student will be involved knowingly with another student's violation of this standard of honest behavior."

In addition to refraining from obvious forms of cheating and plagiarism:

- On assignments, do not copy or paraphrase work from each other, from students who have taken the class previously, from materials of mine distributed in a previous class, or from outside sources. Any written work should be entirely your own (or your team's, as applicable).
- Do not obtain advice, notes, solutions, or other material from students who took the class previously in ways that would give you an unfair advantage or would undermine the learning experience for you and the class (such as, notes from past case discussions). Similarly, do not use others' case analyses posted on-line.
- Use quotation marks when quoting any text directly. Changing a few words of a sentence or longer section does not make the work your own. Independently written texts rarely have even five consecutive words in common.

Most forms of disallowed shortcuts are easy to detect and will be referred to the school's Academic Integrity Committee. If something is going on in your professional or personal life that prevents you from finishing assigned work in a timely manner, get in touch with me before the deadline (and get in touch with Student Services as appropriate). Finally, to help prevent other students from violating academic integrity, do not pass on notes or give advice on assignments to any students who are taking the course in a later quarter or are taking it at the same time in a different section. Please refer to the Student Handbook for any questions regarding the Code of Academic Integrity.

Professionalism

Treat class sessions like business meetings. Unprofessional behavior has a negative impact on your participation grade. Specifically,

- Make every effort to attend each class.
- Display your printed name tent in every class.
- You are expected to be in your seat and ready for class at the beginning of each class.

Should extenuating circumstances require you to leave early, please let the professor know before the start of class and sit in back so you can leave with as little disruption as possible.

- You are allowed to use laptops and tablets during lecture, but they should only be used for coursework related activities and not for email, social media, or other activities not directly related to the course. Cell phones must be turned off or silenced during class. No photography of any kind is allowed.

Course Outline and Schedule

Topics and Readings

Required readings are indicated with an asterisk "*" Additional journal articles, **which are not required**, are included for students who want more information on particular topics. These are not on reserve in the library, although copies of the *Journal of Financial Economics*, the *Journal of Finance*, and the *Review of Financial Studies* are available in the Management Library (and available online through these links if you are logged into the UR network).

I. INTRODUCTION: THE STATISTICAL PROPERTIES OF STOCK RETURNS

- *1. *BKM*, Chapter 5. (Chapters 1-4 provide background information that will be useful to people who do not have prior exposure to capital markets institutions)
- *2. Siegel, Jeremy J., "The Equity Premium: Stock and Bond Returns Since 1802," *Financial Analysts Journal*, 48 (January-February 1992) 28-38.
- *3. Schwert, G. W., "Stock Volatility during the Recent Financial Crisis," *European Financial Management*, 17 (2011) 789-805.
4. Kritzman, Mark, "What Practitioners Need to Know . . . About Lognormality," *Financial Analysts Journal*, 48 (July-August 1992) 10-12.

II. BOND MARKETS & INTEREST RATES

- *1. *BKM*, Chapters 14-16.
- *2. Kritzman, Mark, "What Practitioners Need to Know . . . About the Term Structure of Interest Rates," *Financial Analysts Journal*, 49 (July-August 1993) 14-17.
- 3. Fama, E.F., and G.W. Schwert, "Asset Returns and Inflation," *Journal of Financial Economics*, (November 1977) 115-146.
- 4. Fama, E.F., "Short-term Interest Rates As Predictors of Inflation," *American Economic Review*, (June 1975) 269-282.

III. PORTFOLIO SELECTION - DIVERSIFICATION AND EFFICIENT PORTFOLIOS

- *1. *BKM*, Chapters 6-8.

IV. THE CAPITAL ASSET PRICING MODEL: THEORY, TESTS AND EXTENSIONS

- *1. *BKM*, Chapters 9, 10, and 13.
- *2. Fama, Eugene F., Kenneth R. French, David G. Booth, and Rex Sinquefeld, "Differences in Risks and Returns of NYSE and NASD Stocks," *Financial Analysts Journal*, 49 (January-February 1993) 37-41.
- *3. Fama, Eugene F., and Kenneth R. French, "The Anatomy of Value and Growth Returns," *Financial Analysts Journal*, 63 (November-December 2007) 44-54.

V. EFFICIENT CAPITAL MARKETS

- *1. *BKM*, Chapters 11-13.
- *2. Kritzman, Mark, "What Practitioners Need to Know . . . About Event Studies," *Financial Analysts Journal*, 50 (November-December 1994) 17-20.
- *3. Schwert, G. W., "Anomalies and Market Efficiency," *Handbook of the Economics of Finance*, eds. George Constantinides, Milton Harris, and René Stulz, North-Holland (2003) 937-972.
- *4. Fama, Eugene F. and Robert Litterman, "An Experienced View on Markets and Investing," *Financial Analysts Journal*, 68 (November-December 2012) 15-19.
- *5. Thaler, Richard H., "The Power of Nudges, for Good and Bad," *New York Times*, October 31, 2015.

6. Benartzi, Shlomo and Thaler, Richard H., "Naïve diversification strategies in defined contribution savings plans," *American Economic Review*, 91, (March 2001) 79-98.

VI. PORTFOLIO EVALUATION AND MANAGEMENT

- *1. *BKM*, Chapters 24-27.

VII. THE PRICING OF OPTIONS

- *1. *BKM*, Chapters 20-21.

- *2. Kritzman, Mark, "What Practitioners Need to Know . . . About Option Replication," *Financial Analysts Journal*, 48 (January-February 1992) 21-23.

VIII. THE PRICING OF FUTURES

- *1. *BKM*, Chapters 22-23.

- *2. Kritzman, Mark, "What Practitioners Need to Know . . . About Commodity Futures Contracts," *Financial Analysts Journal*, 49 (March-April 1993) 18-21.

Sample Peer Review Form

TEAM GRADING POLICY

Since part of your final grade will include work done in study teams, it is important to establish a grading format for the teams. Please follow the procedure below and return this form to the EMBA Program Office prior to the final examination. This form will be used for grading purposes and also to assess any team issues that may need to be addressed.

Course: _____

Study Team: _____

Please provide an explanation if you are assigning points unequally. Then allocate the number of points you want to assign to your teammates. The total points must equal 100.

Explanation:

	Points
Your name: _____	_____
Other members: _____	_____
_____	_____
_____	_____
_____	_____
_____	_____
(Total Must Equal 100.)	_____