Southern Methodist University  
Department of Economics  

**Introduction to Financial Economics**  
ECO 4368  
FALL 2013

**Time:** Tuesday and Thursday 12:30-1:50 pm  
**Place:** Umphrey Lee 242  
**Instructor:** Dr. Saltuk Ozerturk  
**Office:** Lee 301X  
**Phone:** 83 344  
**E-Mail:** ozerturk@mail.smu.edu

**Course Description:** This course provides an introduction to basic concepts of financial management and corporate finance. The main objective is to provide an understanding of the financial decisions that a firm has to make. While doing that, we will also go into details of security valuation, especially in the case of debt financing (bonds) and equity financing (stocks).

**Office Hours:** Tuesday and Thursday 10:30 am-12:30pm or by appointment.


**Required Lecture Notes:** The entire set of lecture notes for Eco 4368 can be found and printed from my website at [http://faculty.smu.edu/ozerturk/teaching.html](http://faculty.smu.edu/ozerturk/teaching.html)

**Attendance Policy:** Attendance is absolutely mandatory and will count for 5% of your grade. Your grade from attendance will be determined on a pro rata basis. If you miss half of the classes, you will lose half of the credit available for attendance.

**Grading**

The course grade will be based on attendance, 3 homework assignments and 2 midterm exams (**I will actually give 3 midterm exams and count the best 2 out of 3**) with the following weights

- **Attendance:** 5%
- **3 Homeworks:** (5%)
- **2 Midterm Exams** 30% each, total 60%
- **Final (30%)**
Make-up Exam Policy

There is no make-up for midterm exams.

Disability Accommodations

Students needing academic accommodations for a disability must first be registered with Disability Accommodations & Success Strategies (DASS) to verify the disability and to establish eligibility for accommodations. Students may call 214-768-1470 or visit http://www.smu.edu/alec/dass.asp to begin the process. Once registered, students should then schedule an appointment with me to make appropriate arrangements.

Religious Observance

Religiously observant students wishing to be absent on holidays that require missing class should notify me in writing at the beginning of the semester, and should discuss with me, in advance, acceptable ways of making up any work missed because of the absence.

Excused Absences for University Extracurricular Activities

Students participating in an officially sanctioned, scheduled University extracurricular activity will be given the opportunity to make up class assignments or other graded assignments missed as a result of their participation. It is the responsibility of the student to make arrangements with me prior to any missed scheduled examination or other missed assignment for making up the work.

Learning Outcomes

- Students will gain familiarity with the pricing and valuation principles of financial securities like bonds and stocks.
- Students will be able to explain the driving forces that determine a firm’s capital budgeting and financing decisions.
- Students will be able to have an informed discussion of current events in the financial markets.
- Students will be able to solve the basic risk management problems commonly faced in the financial services industry.
Tentative Course Outline

Risk and Return- Optimal Portfolio Problem
Diversifiable versus Market Risk
Security Market Line and CAPM
Time Value of Money
Bonds and Their Valuation

• Exam 1 (October 1st 2013, Tuesday)

  Interest Rate and Maturity Risk on Bonds
  Duration Computation
  Common Stock Valuation
  Common Stock Valuation and CAPM

• Exam 2 (October 22nd, 2013 Tuesday)

  Stock Valuation with Non-Constant Dividend Growth
  Cost of Capital (WACC)
  Choice between External and Internal Equity
  Capital Budgeting

• Exam 3 (November 14th, 2013 Thursday)

  Review of Decision Rules in Capital Budgeting
  Derivatives and their Use in Risk Management
  Managing the Risk of a Stock Portfolio with a Put Option on the Market Index

FINAL (December 16th 2013, Monday 8:00 am-11:00 am)