Southern Methodist University  
Department of Economics  

Introduction to Financial Economics  
ECO 4368 Section 1  
SPRING 2015

Time: Tuesday and Thursday 3:30-4:50 pm  
Place: Umphrey Lee 303  
Instructor: Dr. Saltuk Ozerturk  
Office: Lee 301X  Phone: 833 344  
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 1:30 pm-3:30 pm 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

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, 2 quizzes (open notes) and 2 midterm exams (closed notes). I will actually give 3 midterm exams and count the best 2 grades out of 3 midterms. The weights are as follows:

- Attendance: 5%
- 2 Quizzes (5% total)
- 2 Midterm Exams (best 2 out of 3) 30% each, total 60%
- Final (30%)
**Make-up Exam Policy:** There is absolutely no make-up for midterm exams or quizzes. There are 3 midterms and I count the best 2 grades out of 3 midterms. Therefore, one midterm is extra. In case, for example, you miss Midterm 1 or 2, you can always make that up by taking Midterm 3.

**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](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

Interest Rate and Maturity Risk on Bonds

Duration

- Quiz 1 February 19th, Thursday
- Midterm 1 February 26th Thursday
  Common Stock Valuation
  Common Stock Valuation and CAPM
  Stock Valuation with Non-Constant Dividend Growth
- Quiz 2 March 19th, Thursday
- Midterm 2 March 26th Thursday
  Stock Valuation with Non-Constant Dividend Growth
  Cost of Capital (WACC)
  Choice between External and Internal Equity
  Capital Budgeting
- Midterm 3 April 28th Tuesday
  Review of Decision Rules in Capital Budgeting

FINAL May 7th Thursday 11:30 AM-2:30 PM at Lee 303